



**Auditor of State
Betty Montgomery**

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of the Board:

We have audited the accompanying 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, 2005 and June 30, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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, 2005 and June 30, 2004, and the respective changes in financial position, thereof and the respective budgetary comparison for the General fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the Center implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2006, 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.

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

Betty Montgomery
Auditor of State

January 10, 2006

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities increased \$288,015 which represents a 10.53% increase from 2004.
- General revenues accounted for \$1,762,506 in revenue or 18.35% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$7,841,646 or 81.65% of total revenues of \$9,604,152.
- The Center had \$9,316,137 in expenses related to governmental activities; \$7,841,646 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 \$1,762,506 were adequate to provide for these programs.
- The Center's only major governmental fund is the general fund. The general fund had \$9,442,688 in revenues and \$8,939,008 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance increased \$503,680 from \$2,570,266 to \$3,073,946.

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 2005?" 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, 2005
(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 12-13 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 9. 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 14-18 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 19-40 of this report.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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 2005 and 2004.

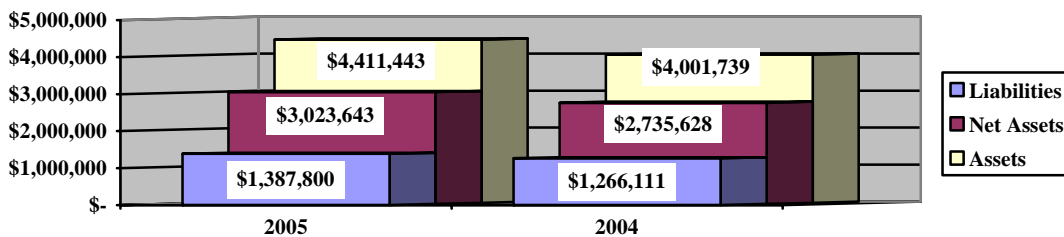
	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
Assets		
Current and other assets	\$4,210,551	\$3,751,038
Capital assets, net	200,892	250,701
Total assets	4,411,443	4,001,739
Liabilities		
Current liabilities	1,126,911	1,046,613
Long-term liabilities	260,889	219,498
Total liabilities	1,387,800	1,266,111
Net Assets		
Invested in capital assets, net of related debt	200,892	250,701
Restricted	11,476	-
Unrestricted	2,811,275	2,484,927
Total net assets	\$3,023,643	\$2,735,628

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Center's assets exceeded liabilities by \$3,023,643. Of this total, \$2,811,275 is unrestricted in use.

At year-end, capital assets represented 4.55% of total assets.

A portion of the Center's net assets, \$11,476, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,811,275 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, 2005
(Continued)**

The table below shows the change in net assets for fiscal year 2005 and 2004.

	Change in Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues:		
Charges for services and sales	\$7,594,643	\$7,594,209
Operating grants and contributions	247,003	213,544
General revenues:		
Grants and entitlements	1,601,280	1,532,209
Investment earnings	84,593	54,040
Other	76,633	84,112
Total revenues	<u>9,604,152</u>	<u>9,478,114</u>
Expenses		
Program expenses:		
Instruction:		
Regular	471,110	463,521
Special	3,238,090	2,980,441
Support services:		
Pupil	2,140,110	2,059,991
Instructional staff	1,887,850	1,797,895
Board of education	14,415	13,639
Administration	1,152,462	1,116,284
Fiscal	181,841	180,085
Operations and maintenance	1,957	25,462
Pupil transportation	1,887	15,188
Central	197,588	170,575
Operations of non-instructional services	28,348	36,350
Extracurricular activities	479	600
Total expenses	<u>9,316,137</u>	<u>8,860,031</u>
Change in net assets	288,015	618,083
Net assets at beginning of year	<u>2,735,628</u>	<u>2,117,545</u>
Net assets at end of year	<u><u>\$3,023,643</u></u>	<u><u>\$2,735,628</u></u>

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

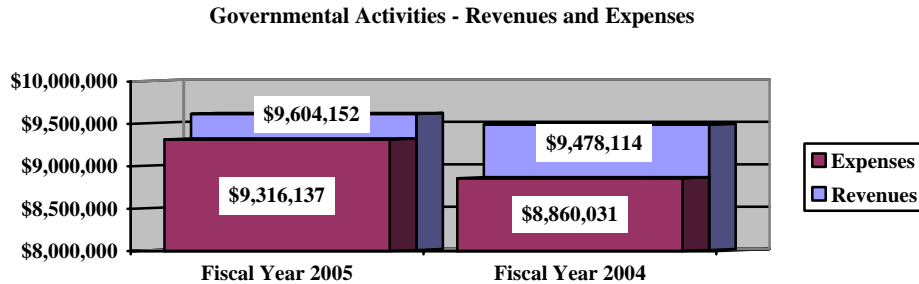
Governmental Activities

Net assets of the Center's governmental activities increased \$288,015. Total governmental expenses of \$9,316,137 were offset by program revenues of \$7,841,646 and general revenues of \$1,762,506. Program revenues supported 84.17% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from contract services. This revenue source represents 78.66% of total governmental revenue.

The largest expense of the Center is for instructional programs. Instruction expenses totaled \$3,709,200 or 39.81% of total governmental expenses for fiscal 2005.

The graph below presents the Center's governmental activities revenue and expenses for fiscal year 2005 and 2004.



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.

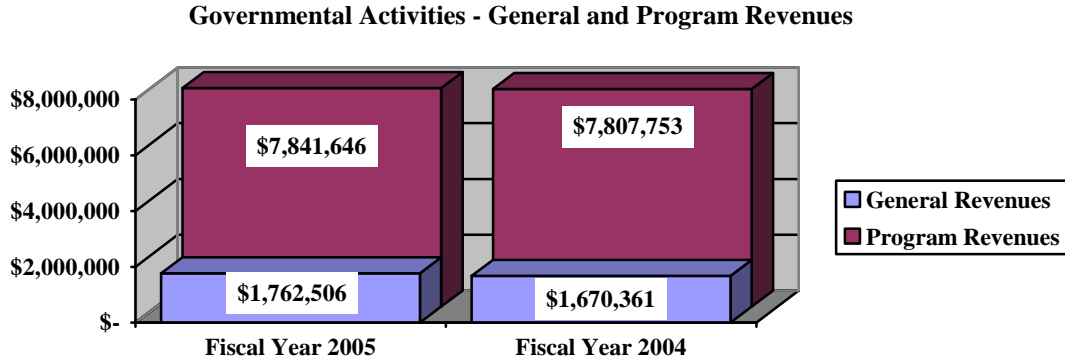
	Governmental Activities			
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$471,110	\$373,914	\$463,521	\$423,195
Special	3,238,090	250,151	2,980,441	18,126
Support services:				
Pupil	2,140,110	191,059	2,059,991	50,111
Instructional staff	1,887,850	156,395	1,797,895	91,537
Board of education	14,415	14,415	13,639	13,639
Administration	1,152,462	110,949	1,116,284	60,842
Fiscal	181,841	173,637	180,085	173,381
Operations and maintenance	1,957	1,957	25,462	25,462
Pupil transportation	1,887	1,887	15,188	15,188
Central	197,588	197,142	170,575	169,563
Operations of non-instructional services	28,348	3,348	36,350	11,350
Extracurricular activities	479	(363)	600	(116)
Total expenses	\$9,316,137	\$1,474,491	\$8,860,031	\$1,052,278

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

The dependence upon program revenues for governmental activities is apparent, 16.82% of instruction activities are supported through program revenues. For all governmental activities, program revenue support is 84.17%. 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 2005 and 2004.



The Center's Funds

The Center's governmental funds reported a combined fund balance of \$3,083,640, which is higher than last year's total of \$2,580,783. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$3,073,946	\$2,570,266	\$503,680	19.60 %
Other Governmental	9,694	10,517	(823)	(7.83) %
Total	\$3,083,640	\$2,580,783	\$502,857	19.48 %

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

General Fund

The Center's general fund balance increased \$503,680 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and increased expenditures. Revenues exceed expenditures for fiscal year 2005 by \$516,412. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2005 Amount	Restated 2004 Amount	Increase (Decrease)	Percentage Change
Revenues				
Contract services	\$7,651,742	\$7,381,149	\$270,593	3.67 %
Earnings on investments	84,593	54,040	30,553	56.54 %
Intergovernmental	1,601,280	1,586,111	15,169	0.96 %
Other revenues	105,073	134,511	(29,438)	(21.89) %
Total	9,442,688	9,155,811	286,877	3.13 %
Expenditures				
Instruction	3,615,542	3,348,969	266,573	7.96 %
Support services	5,310,730	5,125,909	184,821	3.61 %
Non-instructional services	4	6,878	(6,874)	(99.94) %
Total	\$8,926,276	\$8,481,756	\$444,520	5.24 %

General Fund Budgeting Highlights

The Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2005, the Center amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$8,802,296 and final budgeted revenues and other financing sources were \$8,802,296. Actual revenues and other financing sources for fiscal 2005 was \$9,445,485. This represents a \$643,189 increase over original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,385,944 were increased to \$9,533,342 in the final budgeted appropriations. The actual budget basis expenditures for fiscal year 2005 totaled \$9,039,435, which was \$493,907 less than the final budget appropriations.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the Center had \$200,892 invested in furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

	<u>2005</u>	<u>2004</u>
Furniture and equipment	<u>\$200,892</u>	<u>\$250,701</u>
Total	<u><u>\$200,892</u></u>	<u><u>\$250,701</u></u>

The overall decrease in capital assets of \$49,809 is due to depreciation expense of \$64,570 exceeding capital outlays of \$14,761 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, 2005, the Center had no long term debt outstanding.

See Note 8 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, 2005. 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.

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.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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, 510 W. Water Street, Suite 210, Troy, Ohio 45373-2987.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$3,434,211
Receivables:	
Intergovernmental	750,694
Accrued interest	853
Prepayments	18,195
Materials and supplies inventory	6,598
Capital assets:	
Depreciable capital assets, net	200,892
Total assets	4,411,443
Liabilities:	
Accounts payable	20,090
Accrued wages and benefits	872,943
Pension obligation payable	149,780
Intergovernmental payable	84,058
Deferred revenue	40
Long-term liabilities:	
Due within one year	11,740
Due within more than one year	249,149
Total liabilities	1,387,800
Net Assets:	
Invested in capital assets	200,892
Restricted for:	
Locally funded programs	1,659
State funded programs	9,151
Student activities	666
Unrestricted	2,811,275
Total net assets	\$3,023,643

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, 2005**

	<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	\$471,110		\$97,196	(\$373,914)
Special	3,238,090	\$2,987,939		(250,151)
Support services:				
Pupil	2,140,110	1,944,393	4,658	(191,059)
Instructional staff	1,887,850	1,597,435	134,020	(156,395)
Board of education	14,415			(14,415)
Administration	1,152,462	1,038,588	2,925	(110,949)
Fiscal	181,841		8,204	(173,637)
Operations and maintenance	1,957			(1,957)
Pupil transportation	1,887			(1,887)
Central	197,588	446		(197,142)
Operation of non-instructional services:				
Other non-instructional services	28,348	25,000		(3,348)
Extracurricular activities	479	842		363
Total governmental activities	<u>\$9,316,137</u>	<u>\$7,594,643</u>	<u>\$247,003</u>	<u>(\$1,474,491)</u>

General Revenues:

Grants and entitlements not restricted to specific programs	1,601,280
Investment earnings	84,593
Miscellaneous	76,633
Total general revenues	<u>1,762,506</u>
 Change in net assets	 288,015
 Net assets at beginning of year	 <u>2,735,628</u>
Net assets at end of year	<u><u>\$3,023,643</u></u>

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$3,392,300	\$41,911	\$3,434,211
Receivables:			
Intergovernmental	740,589	10,105	750,694
Accrued interest	853		853
Interfund loans	10,105		10,105
Prepayments	17,385	810	18,195
Materials and supplies inventory	6,598		6,598
Total assets	<u>4,167,830</u>	<u>52,826</u>	<u>4,220,656</u>
Liabilities:			
Accounts payable	16,752	3,338	20,090
Accrued wages and benefits	848,982	23,961	872,943
Interfund loans payable		10,105	10,105
Pension obligation payable	146,290	3,490	149,780
Intergovernmental payable	81,820	2,238	84,058
Deferred revenue	40		40
Total liabilities	<u>1,093,884</u>	<u>43,132</u>	<u>1,137,016</u>
Fund Balances:			
Reserved for encumbrances	13,888	19,168	33,056
Reserved for materials and supplies inventory	6,598		6,598
Reserved for prepayments	17,385	810	18,195
Unreserved, undesignated (deficit), reported in:			
General fund	3,036,075		3,036,075
Special revenue funds		(10,284)	(10,284)
Total fund balances	<u>3,073,946</u>	<u>9,694</u>	<u>3,083,640</u>
Total liabilities and fund balances	<u>\$4,167,830</u>	<u>\$52,826</u>	<u>\$4,220,656</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, 2005**

Total governmental fund balances	\$3,083,640
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	200,892
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds

Compensated absences	<u>\$260,889</u>
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Total	<u>(260,889)</u>
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Net assets of governmental activities	<u><u>\$3,023,643</u></u>
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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, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$31,225		\$31,225
Contract services	7,651,742		7,651,742
Earnings on investments	84,593		84,593
Classroom materials and fees	4,785		4,785
Extracurricular		\$842	842
Other local revenues	69,063	37,261	106,324
Intergovernmental - State	1,290,713	130,469	1,421,182
Intergovernmental - Federal	310,567	116,534	427,101
Total revenue	<u>9,442,688</u>	<u>285,106</u>	<u>9,727,794</u>
Expenditures:			
Current:			
Instruction:			
Regular	445,462	35,363	480,825
Special	3,170,080	31,437	3,201,517
Support services:			
Pupil	2,097,609	32,142	2,129,751
Instructional staff	1,706,706	163,510	1,870,216
Board of education	14,415		14,415
Administration	1,121,579		1,121,579
Fiscal	171,210	8,479	179,689
Operations and maintenance	1,957		1,957
Pupil transportation	1,887		1,887
Central	195,367	1,162	196,529
Other non-instructional services	4	26,089	26,093
Extracurricular activities		479	479
Total expenditures	<u>8,926,276</u>	<u>298,661</u>	<u>9,224,937</u>
Excess of revenues over (under) expenditures	<u>516,412</u>	<u>(13,555)</u>	<u>502,857</u>
Other financing sources (uses):			
Transfers in		12,732	12,732
Transfers (out)	(12,732)		(12,732)
Total other financing sources (uses)	<u>(12,732)</u>	<u>12,732</u>	
Net change in fund balances	503,680	(823)	502,857
Fund balances			
at beginning of year (restated)	2,570,266	10,517	2,580,783
Fund balances at end of year	<u>\$3,073,946</u>	<u>\$9,694</u>	<u>\$3,083,640</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, 2005**

Net change in fund balances - total governmental funds **\$502,857**

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	\$14,761
Current year depreciation	<u>(64,570)</u>

Total (49,809)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (123,642)

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. (41,391)

Change in net assets of governmental activities **\$288,015**

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<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	\$31,265	\$1,265
Earnings on investments	50,000	50,000	79,305	29,305
Classroom materials and fees	8,000	8,000	6,500	(1,500)
Other local revenues	100,000	100,000	83,459	(16,541)
Contract service revenue	7,060,777	7,060,777	7,480,101	419,324
Intergovernmental - State	1,353,519	1,353,519	1,290,713	(62,806)
Intergovernmental - Federal	200,000	200,000	362,352	162,352
Total revenue	<u>8,802,296</u>	<u>8,802,296</u>	<u>9,333,695</u>	<u>531,399</u>
Expenditures:				
Current:				
Instruction:				
Regular	453,086	468,656	438,015	30,641
Special	3,282,093	3,309,070	3,189,983	119,087
Support services:				
Pupil	2,098,866	2,150,546	2,080,107	70,439
Instructional staff	1,730,051	1,744,351	1,702,233	42,118
Board of education	23,800	24,050	14,418	9,632
Administration	1,229,844	1,265,994	1,117,531	148,463
Fiscal	191,450	192,490	170,634	21,856
Operations and maintenance	4,628	4,790	4,566	224
Pupil transportation	3,047	4,052	3,361	691
Central	218,238	218,238	196,297	21,941
Operation of non-instructional services	791	1,055	1,053	2
Total expenditures	<u>9,235,894</u>	<u>9,383,292</u>	<u>8,918,198</u>	<u>465,094</u>
Excess of revenues over (under) expenditures	<u>(433,598)</u>	<u>(580,996)</u>	<u>415,497</u>	<u>996,493</u>
Other financing sources (uses):				
Refund of prior year expenditure			13,390	13,390
Transfers in			98,400	98,400
Transfers (out)	(150,000)	(150,000)	(111,132)	38,868
Advances (out)			(10,105)	(10,105)
Refund of prior year receipts	(50)	(50)		50
Total other financing sources (uses)	<u>(150,050)</u>	<u>(150,050)</u>	<u>(9,447)</u>	<u>140,603</u>
Net change in fund balance	(583,648)	(731,046)	406,050	1,137,096
Fund balance at beginning of year	2,932,933	2,932,933	2,932,933	
Prior year encumbrances appropriated	18,503	18,503	18,503	
Fund balance at end of year	<u>\$2,367,788</u>	<u>\$2,220,390</u>	<u>\$3,357,486</u>	<u>\$1,137,096</u>

See accompanying notes to the basic financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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 121 support staff employees and 110 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, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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 Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the general fund. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the 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. Budgets

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Estimated Resources:

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

2. Appropriations:

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

3. Lapsing of Appropriations:

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

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 2005, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2005 amounted to \$84,593, which includes \$23,354 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 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>
Furniture and equipment	4 - 10 years

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2005, 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, 2005, 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 non-current 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, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

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).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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 2005.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. ACCOUNTABILITY & COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the Center has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the Center, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major governmental funds of the Center as they were previously reported as of June 30, 2004:

	General	Non-Major	Total
Fund Balances, June 30, 2004	\$2,609,790	\$12,896	\$2,622,686
GASB Technical Bulletin No. 2004-2	(39,524)	(2,379)	(41,903)
Restated Fund Balances, June 30, 2004	\$2,570,266	\$10,517	\$2,580,783

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

Non-Major Funds	Deficit
EMIS	\$48
Entry Year Program	144
Safe School Helpline	243
EHA Preschool Grants for the handicapped	10,726

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(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 of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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);

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(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. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all Center deposits was \$2,356,630. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$2,415,626 of the Center's bank balance of \$2,515,626 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, 2005, the Center had the following investments and maturities:

Investment type	Balance at Fair Value	Investment Maturities	
		6 months or less	7 to 12 months
U.S. Government Money Market	\$28,676	\$28,676	\$0
FHLMC Discount Note	518,236	-	518,236
FNMA Discount Note	333,195	147,660	185,535
FHLB	197,374	-	197,374
	<u>\$1,077,481</u>	<u>\$176,336</u>	<u>\$901,145</u>

The weighted average maturity of investments is .61 years.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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. **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 an AAA money market rating to the U.S. Government Money Market.
3. **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, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
U.S. Government Money Market	\$28,676	2.66
FHLMC Discount Note	518,236	48.10
FNMA Discount Note	333,195	30.92
FHLB	<u>197,374</u>	<u>18.32</u>
	<u>\$1,077,481</u>	<u>100.00</u>

D. Reconciliation of Cash and Investment 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, 2005:

Cash and Investments per footnote

Carrying amount of deposits	\$2,356,630
Investments	1,077,481
Cash on hand	<u>100</u>
Total	<u>\$3,434,211</u>

Cash and investments per Statement of Net Assets

Governmental activities	<u>\$3,434,211</u>
Total	<u>\$3,434,211</u>

5. INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	<u>Amount</u>
General Fund	<u>\$12,732</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

5. INTERFUND TRANSACTIONS (Continued)

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.

- B.** Interfund balances at June 30, 2005 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	Nonmajor governmental funds	\$ 10,105

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.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

6. RECEIVABLES

Receivables at June 30, 2005 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:	
Accrued interest	\$853
Intergovernmental	<u>750,694</u>
Total	<u><u>\$751,547</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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>
Governmental Activities:				
Capital assets, being depreciated:				
Furniture and equipment	\$533,837	\$14,761	\$0	\$548,598
Total capital assets, being depreciated	533,837	14,761	-	548,598
Less: accumulated depreciation:				
Furniture and equipment	(283,136)	(64,570)	-	(347,706)
Total accumulated depreciation	(283,136)	(64,570)	-	(347,706)
Governmental activities capital assets, net	<u>\$250,701</u>	<u>(\$49,809)</u>	<u>\$0</u>	<u>\$200,892</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$5,046
Special		12,796
Support Services:		
Pupil		7,341
Instructional staff		3,410
Administration		33,455
Fiscal		1,739
Central		487
Operation of non-instruction		296
Total depreciation expense		<u>\$64,570</u>

8. LONG-TERM OBLIGATIONS

During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Balance Outstanding July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding June 30, 2005</u>	<u>Amounts Due in One Year</u>
Governmental Activities:					
Compensated absences	\$219,498	\$69,754	(\$28,363)	\$260,889	\$11,740
Total long-term obligations, governmental activities	<u>\$219,498</u>	<u>\$69,754</u>	<u>(\$28,363)</u>	<u>\$260,889</u>	<u>\$11,740</u>

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

9. COMPENSATED ABSENCES

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

10. RISK MANAGEMENT

A. Comprehensive

During fiscal year 2005, 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.).

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

	<u>Coverage</u>
Property General Liability:	
Bodily Injury and Property Damage	\$4,000,000
Personal and Advertising Injury Limit - Each Offense	4,000,000
Fire Damage Limit - Any One Event	500,000
Medical Expense - per occurrence/aggregate	1,000/5,000
General Aggregate Limit	6,000,000
Products - Completed Operations Limit	4,000,000
Educational Legal Liability:	
Errors or Omissions	4,000,000
Automobile Liability:	
Owned/Lease vehicles	4,000,000
Uninsured Motorist	50,000
Medical Payments - per person/accident	1,000/5,000
Auto physical damage	100,000
Employee Benefits Liability - per occurrence	1,000,000

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

B. Employee Health Insurance

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

10. RISK MANAGEMENT (Continued)

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 2005, 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.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$239,995, \$195,278 and \$167,044, respectively; 100% has been contributed for fiscal years 2005, 2004 and 2003.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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.

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14% 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 years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The Center's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$547,666, \$531,164, and \$528,837, respectively; 100% has been contributed for fiscal years 2005, 2004 and 2003. Contributions to the DC and Combined Plans for fiscal 2005 were \$25,463 made by the Center and \$37,793 made by plan members.

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, 2005, certain members of the Board of Education have elected Social Security. The Center's liability is 6.2% of wages paid.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the Center, this amount equaled \$42,128 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the Center, the amount to fund health care benefits, including surcharge, equaled \$119,780 during the 2005 fiscal year.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

13. BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented 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 the GAAP basis are that:

- a. Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b. Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	
	General Fund
Budget basis	\$406,050
Net adjustment for revenue accruals	108,993
Net adjustment for expenditure accruals	(39,876)
Net adjustment for other sources/uses	(3,285)
Adjustment for encumbrances	31,798
GAAP basis	\$503,680

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

14. CONTINGENCIES (Continued)

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The Center is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

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
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities increased \$618,083 which represents a 29.19% increase from 2003.
- General revenues accounted for \$1,670,361 in revenue or 17.62% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$7,807,753 or 82.38% of total revenues of \$9,478,114.
- The Center had \$8,860,031 in expenses related to governmental activities; \$7,807,753 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 \$1,670,361 were adequate to provide for these programs.
- The Center's only major governmental fund is the general fund. The general fund had \$9,155,811 in revenues and \$8,493,098 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance increased \$662,713 from \$1,947,077 to \$2,609,790.

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 2004?" 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, 2004
(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 property tax base, current property tax laws in Ohio restricting revenue growth, 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, extracurricular activities, and food service operations.

The Center's statement of net assets and statement of activities can be found on pages 50-51 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 47. 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 52-56 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 57-79 of this report.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

The Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Center as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the Center's net assets for 2004.

	Net Assets
	Governmental Activities 2004
Assets	
Current and other assets	\$3,751,038
Capital assets	250,701
Total assets	4,001,739
Liabilities	
Current liabilities	1,046,613
Long-term liabilities	219,498
Total liabilities	1,266,111
Net Assets	
Invested in capital assets, net of related debt	250,701
Restricted	-
Unrestricted	2,484,927
Total net assets	\$2,735,628

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the Center's assets exceeded liabilities by \$2,735,628. Of this total, \$2,484,927 is unrestricted in use.

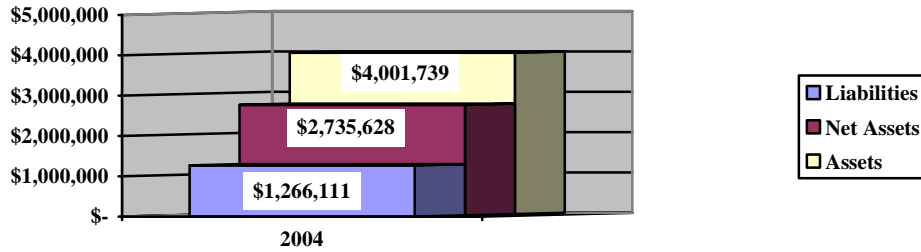
At year-end, capital assets represented 6.26% of total assets. Capital assets include furniture and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$250,701. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The remaining balance of unrestricted net assets of \$2,484,927 may be used to meet the Center's ongoing obligations to the students and creditors.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Governmental Activities



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the Center has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2004
Revenues	
<hr/>	
Program revenues:	
Charges for services and sales	\$7,594,209
Operating grants and contributions	213,544
General revenues:	
Grants and entitlements	1,532,209
Investment earnings	54,040
Other	84,112
	<hr/>
Total revenues	9,478,114
	<hr/>

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$463,521
Special	2,980,441
Support services:	
Pupil	2,059,991
Instructional staff	1,797,895
Board of education	13,639
Administration	1,116,284
Fiscal	180,085
Operations and maintenance	25,462
Pupil transportation	15,188
Central	170,575
Operations of non-instructional services	36,350
Extracurricular activities	<u>600</u>
 Total expenses	 <u>8,860,031</u>
 Change in net assets	 <u><u>\$618,083</u></u>

Governmental Activities

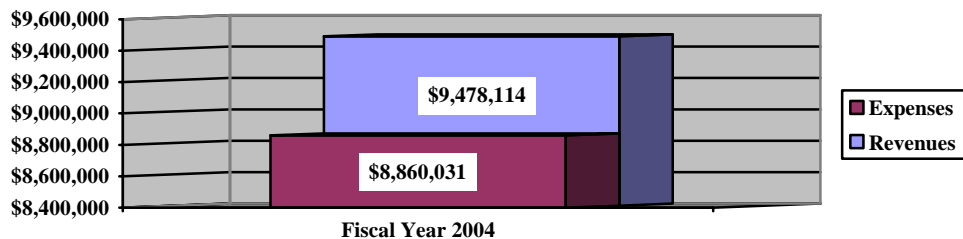
Net assets of the Center's governmental activities increased \$618,083. Total governmental expenses of \$8,860,031 were offset by program revenues of \$7,807,753 and general revenues of \$1,670,361. Program revenues supported 88.12% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from contract services. This revenue source represents 78.44% of total governmental revenue.

The largest expense of the Center is for instructional programs. Instruction expenses totaled \$3,443,962 or 38.87% of total governmental expenses for fiscal 2004.

The graph below presents the Center's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

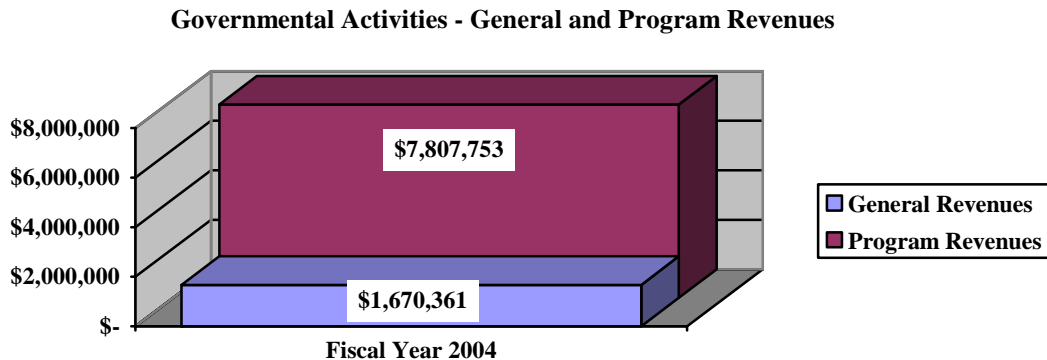
The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$463,521	\$423,195
Special	2,980,441	18,126
Support services:		
Pupil	2,059,991	50,111
Instructional staff	1,797,895	91,537
Board of education	13,639	13,639
Administration	1,116,284	60,842
Fiscal	180,085	173,381
Operations and maintenance	25,462	25,462
Pupil transportation	15,188	15,188
Central	170,575	169,563
Operations of non-instructional services	36,350	11,350
Extracurricular activities	600	(116)
Total expenses	\$8,860,031	\$1,052,278

The dependence upon other general revenues for governmental activities is apparent, 12.81% of instruction activities are supported through other general revenues. For all governmental activities, general revenue support is 11.88%. 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 2004.



**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

The Center's Funds

The Center's governmental funds reported a combined fund balance of \$2,622,686, which is higher than last year's total of \$1,967,039. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	<u>Fund Balance June 30, 2004</u>	<u>Fund Balance June 30, 2003</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$2,609,790	\$1,947,077	\$662,713	34.04 %
Other Governmental	12,896	19,962	(7,066)	(35.40) %
Total	<u>\$2,622,686</u>	<u>\$1,967,039</u>	<u>\$655,647</u>	33.33 %

General Fund

The Center's general fund balance increased \$662,713 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and increased expenditures. Revenues exceed expenditures for fiscal year 2004 by \$674,055. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Contract services	\$7,381,149	\$6,724,336	\$656,813	9.77 %
Earnings on investments	54,040	54,636	(596)	(1.09) %
Intergovernmental	1,586,111	1,670,137	(84,026)	(5.03) %
Other revenues	134,511	134,025	486	0.36 %
Total	<u>\$9,155,811</u>	<u>\$8,583,134</u>	<u>\$572,677</u>	6.67 %
Expenditures				
Instruction	\$3,348,969	\$3,375,465	(\$26,496)	(0.78) %
Support services	5,125,909	5,065,074	60,835	1.20 %
Non-instructional services	6,878	-	6,878	100.00 %
Total	<u>\$8,481,756</u>	<u>\$8,440,539</u>	<u>\$41,217</u>	0.49 %

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

General Fund Budgeting Highlights

The Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2004, the Center amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$8,452,435 and final budgeted revenues and other financing sources were \$8,660,435. Actual revenues and other financing sources for fiscal 2004 was \$9,350,446. This represents a \$690,011 increase over original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,026,182 were increased to \$9,064,353 in the final budgeted appropriations. The actual budget basis expenditures for fiscal year 2004 totaled \$8,667,492, which was \$396,861 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the Center had \$250,701 invested in furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Furniture and equipment	<u>\$250,701</u>	<u>\$262,760</u>
Total	<u><u>\$250,701</u></u>	<u><u>\$262,760</u></u>

The overall decrease in capital assets of \$12,059 is due to depreciation expense of \$65,547 exceeding capital outlays of \$53,488 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, 2004, the Center had no long term debt outstanding.

See Note 8 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, 2004
(Continued)**

Current Financial Related Activities

The Center is financially in a stable financial condition through June 30, 2004. The Center relies heavily on contracts with the local, city and exempted village school districts in Miami County, state foundation revenue and grants. Expanding with additional services, such as Physical Therapy, could add to revenue for fiscal year 2005 and possibly increase the year-end carryover.

Educational Service Centers are currently being faced with many challenges. One challenge that will directly effect the Center is legislation regarding Ohio's Regional Educational Delivery System and the implementation of that system by the Ohio Department of Education. The effect that the legislation will have on future state funding for Centers is uncertain at this time. Uncertainty of new legislation is always a concern.

Under state law, the Miami County Commissioners are no longer required to provide rent-free office space to the Center. This legislation will have a greater financial effect on the Center in the future, as we decide to either acquire new space or pay the rising rent for the current space.

Declining enrollment in the Miami County Schools in the past few years and the projected decline in the future will directly impact the Center. Charter and community schools continue to drain funds from all schools and this, in turn, will also have a financial impact on ESC's.

Another challenge effecting the Center is the fiscal year 2005 and 2007 biennium budget and the uncertainty of how ESC's are to be funded.

Additionally, if the 1% state sales tax is rescinded on June 30, 2005, there could be a huge financial impact on all schools and ESC's.

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, 510 W. Water Street, Suite 210, Troy, Ohio 45373-2987.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$2,971,782
Receivables:	
Intergovernmental	767,972
Accrued interest	2,149
Prepayments	4,303
Materials and supplies inventory	4,832
Capital assets:	
Depreciable capital assets, net	250,701
Capital assets, net	250,701
 Total assets	 4,001,739
 Liabilities:	
Accounts payable	7,644
Accrued wages and benefits	808,423
Pension obligation payable	149,197
Intergovernmental payable	81,349
Long-term liabilities:	
Due within one year	10,829
Due within more than one year	208,669
Total liabilities	1,266,111
 Net Assets:	
Invested in capital assets	250,701
Unrestricted	2,484,927
Total net assets	\$2,735,628

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, 2004**

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:			
Instruction:			
Regular	\$463,521		(\$423,195)
Special	2,980,441	\$2,915,490	(18,126)
Support services:			
Pupil	2,059,991	1,999,677	(50,111)
Instructional staff	1,797,895	1,599,797	(91,537)
Board of education	13,639		(13,639)
Administration	1,116,284	1,052,517	(60,842)
Fiscal	180,085		(173,381)
Operations and maintenance	25,462		(25,462)
Pupil transportation	15,188		(15,188)
Central	170,575	1,012	(169,563)
Operation of non-instructional services:			
Other non-instructional services	36,350	25,000	(11,350)
Extracurricular activities	600	716	116
Total governmental activities	\$8,860,031	\$7,594,209	\$(1,052,278)
General Revenues:			
			1,532,209
			54,040
			84,112
			1,670,361
			618,083
			2,117,545
			\$2,735,628

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$2,946,128	\$25,654	\$2,971,782
Receivables:			
Intergovernmental	760,486	7,486	767,972
Accrued interest	2,149		2,149
Due from other funds	1,740		1,740
Prepayments	3,915	388	4,303
Materials and supplies inventory	4,832		4,832
Total assets	<u>3,719,250</u>	<u>33,528</u>	<u>3,752,778</u>
Liabilities:			
Accounts payable	7,644		7,644
Accrued wages and benefits	793,719	14,704	808,423
Due to other funds		1,740	1,740
Pension obligation payable	105,240	2,054	107,294
Intergovernmental payable	79,215	2,134	81,349
Deferred revenue	123,642		123,642
Total liabilities	<u>1,109,460</u>	<u>20,632</u>	<u>1,130,092</u>
Fund Balances:			
Reserved for encumbrances	13,159	7,333	20,492
Reserved for materials and supplies inventory	4,832		4,832
Reserved for prepayments	3,915	388	4,303
Unreserved, undesignated, reported in:			
General fund	2,587,884		2,587,884
Special revenue funds		5,175	5,175
Total fund balances	<u>2,609,790</u>	<u>12,896</u>	<u>2,622,686</u>
Total liabilities and fund balances	<u>\$3,719,250</u>	<u>\$33,528</u>	<u>\$3,752,778</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, 2004**

Total governmental fund balances		\$2,622,686
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		250,701
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		
Contract service revenue	\$123,642	
Total		123,642
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		
Compensated absences	219,498	
Pension obligation payable	<u>41,903</u>	
Total		<u>(261,401)</u>
Net assets of governmental activities		<u><u>\$2,735,628</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, 2004**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$31,070		\$31,070
Contract services	7,381,149		7,381,149
Earnings on investments	54,040		54,040
Classroom materials and fees	10,015		10,015
Extracurricular		\$716	716
Other local revenues	84,112	40,047	124,159
Other revenue	9,314		9,314
Intergovernmental - State	1,354,703	97,562	1,452,265
Intergovernmental - Federal	231,408	115,982	347,390
Total revenue	<u>9,155,811</u>	<u>254,307</u>	<u>9,410,118</u>
Expenditures:			
Current:			
Instruction:			
Regular	418,784	40,634	459,418
Special	2,930,185	48,427	2,978,612
Support services:			
Pupil	2,037,042	5,461	2,042,503
Instructional staff	1,615,394	140,707	1,756,101
Board of education	13,639		13,639
Administration	1,072,176	540	1,072,716
Fiscal	179,061	6,482	185,543
Operations and maintenance	25,269		25,269
Pupil transportation	14,708		14,708
Central	168,620	2,076	170,696
Other non-instructional services	6,878	27,788	34,666
Extracurricular activities		600	600
Total expenditures	<u>8,481,756</u>	<u>272,715</u>	<u>8,754,471</u>
Excess of revenues over (under) expenditures	<u>674,055</u>	<u>(18,408)</u>	<u>655,647</u>
Other financing sources (uses):			
Transfers in		11,342	11,342
Transfers (out)	(11,342)		(11,342)
Total other financing sources (uses)	<u>(11,342)</u>	<u>11,342</u>	
Net change in fund balances	662,713	(7,066)	655,647
Fund balances at beginning of year (restated)	<u>1,947,077</u>	<u>19,962</u>	<u>1,967,039</u>
Fund balances at end of year	<u>\$2,609,790</u>	<u>\$12,896</u>	<u>\$2,622,686</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, 2004**

Net change in fund balances - total governmental funds \$655,647

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense \$(65,547) exceeds capital outlays (\$53,488) in the current period. (12,059)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 67,996

Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (93,501)

Change in net assets of governmental activities \$618,083

See accompanying notes to the basic financial statements.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<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	\$29,279	\$30,000	\$31,070	\$1,070
Earnings on investments	48,799	50,000	66,512	16,512
Classroom materials and fees	7,808	8,000	7,050	(950)
Other local revenues	97,598	100,000	99,012	(988)
Contract service revenue	6,832,227	7,000,356	7,419,924	419,568
Other revenue			1,744	1,744
Intergovernmental - State	1,265,927	1,297,079	1,354,703	57,624
Intergovernmental - Federal	170,797	175,000	247,890	72,890
Total revenue	<u>8,452,435</u>	<u>8,660,435</u>	<u>9,227,905</u>	<u>567,470</u>
Expenditures:				
Current:				
Instruction:				
Regular	428,202	429,664	414,855	14,809
Special	3,035,383	3,056,500	2,952,317	104,183
Support services:				
Pupil	2,047,973	2,060,921	2,040,263	20,658
Instructional staff	1,753,464	1,753,464	1,615,343	138,121
Board of education	28,540	28,540	13,493	15,047
Administration	1,226,376	1,228,120	1,090,579	137,541
Fiscal	198,575	199,475	181,392	18,083
Operations and maintenance	25,151	25,151	22,849	2,302
Pupil transportation	15,381	15,381	13,920	1,461
Central	208,852	208,852	184,259	24,593
Operation of non-instructional services	8,185	8,185	5,793	2,392
Total expenditures	<u>8,976,082</u>	<u>9,014,253</u>	<u>8,535,063</u>	<u>479,190</u>
Excess of revenues over (under) expenditures	<u>(523,647)</u>	<u>(353,818)</u>	<u>692,842</u>	<u>1,046,660</u>
Other financing sources (uses):				
Refund of prior year expenditure			1,454	1,454
Transfers in			121,087	121,087
Transfers (out)	(50,000)	(50,000)	(132,429)	(82,429)
Refund of prior year receipts	(100)	(100)		100
Total other financing sources (uses)	<u>(50,100)</u>	<u>(50,100)</u>	<u>(9,888)</u>	<u>40,212</u>
Net change in fund balance	<u>(573,747)</u>	<u>(403,918)</u>	<u>682,954</u>	<u>1,086,872</u>
Fund balance at beginning of year	2,174,321	2,174,321	2,174,321	
Prior year encumbrances appropriated	75,658	75,658	75,658	
Fund balance at end of year	<u>\$1,676,232</u>	<u>\$1,846,061</u>	<u>\$2,932,933</u>	<u>\$1,086,872</u>

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, 2004**

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 131 support staff employees and 112 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". 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 this 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.

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

City of Troy

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

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 Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the general fund. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, 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 possesses its own budgeting and taxing authority. One member is appointed from the following: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following city and/or county school districts: Piqua, Shelby, Sidney, and Troy. To obtain financial information, write to the Upper Valley Joint Vocational School, William Stump, who serves as Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Miami Valley Career Technology Center

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

3. 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, 2004
(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, 2004
(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, 2004
(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. Budgets

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

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Estimated Resources:

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

2. Appropriations:

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

3. Lapsing of Appropriations:

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

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 2004, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, and a First American Treasury money market mutual fund. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The Center has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2004 amounted to \$54,040, which includes \$2,549 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 Treasurer'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 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>
Furniture and equipment	4 - 10 years

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.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2004, 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, 2004, 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 non-current 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, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. Pass-Through Grants

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Center applies restricted resources 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.

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 2004.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the Center has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity".

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the Center's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Restatement of Fund Balance - GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

	<u>General</u>	<u>Non-major</u>	<u>Total</u>
Fund balance June 30, 2003	\$1,936,143	\$19,962	\$1,956,105
Implementation of GASB Interpretation No. 6	<u>10,934</u>		<u>10,934</u>
Restated fund balance, June 30, 2003	<u>\$1,947,077</u>	<u>\$19,962</u>	<u>\$1,967,039</u>

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Restated fund balance, June 30, 2003	\$1,967,039
GASB 34 adjustments:	
Long-term (deferred) assets	55,646
Capital assets	262,760
Long-term liabilities	(167,900)
Governmental activities net assets, June 30, 2003	\$2,117,545

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	Deficit
<u>Non-major Funds</u>	
Entry Year Program	\$155
Alternative Educational Challenge Grant	914
Title I	243
EHA Preschool Grants for the Handicapped	7,704
Classroom Size Reduction	99

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 results from adjustments for accrued liabilities. The alternative school special revenue fund did not comply with State law which does not allow for a negative cash balance at year-end (See Note 5.B.). All other funds complied.

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

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

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

Cash on hand: At fiscal 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."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

A. Deposits

At year-end, the carrying amount of the Center's deposits was \$1,914,402 and the bank balance was \$2,494,488. Of the bank balance:

1. \$100,000 was covered by federal depository insurance deposited with the Center; and
2. \$2,394,488 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the Center. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

B. Investments

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

	Category 2	Reported Amount	Fair Value
Federal agency securities	\$1,040,750	\$1,040,750	\$1,040,750
	\$1,040,750		
First American Treasury money market fund		916	916
Investment in STAR Ohio		15,614	15,614
Total investments		\$1,057,280	\$1,057,280

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,971,782	\$0
Investments of the cash management pool:		
Federal agency securities	(1,040,750)	1,040,750
Investment in STAR Ohio	(15,614)	15,614
First American Treasury money market fund	(916)	916
Cash on hand	(100)	-
GASB Statement No. 3	\$1,914,402	\$1,057,280

5. INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 11,342

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.

- B.** At June 30, 2004, the special revenue fund had a negative cash balance. These fund overdrafts of the internal investment pool have been reported as fund liabilities of the respective funds.

	Due from Other Funds	Due to Other Funds
General Fund	\$1,740	\$0
Special Revenue Fund		
Alternative School	-	1,740
Total	\$1,740	\$1,740

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

6. RECEIVABLES

Receivables at June 30, 2004 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:	
Accrued interest	\$2,149
Intergovernmental	<u>767,972</u>
Total	<u><u>\$770,121</u></u>

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

7. CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to the depreciation of capital assets in accordance with GASB Statement No. 34.

	<u>Balance June 30, 2003</u>	<u>Adjustments</u>	<u>Restated Balance July 1, 2003</u>
Governmental Activities:			
Capital assets, being depreciated:			
Furniture and equipment	\$486,394	\$0	\$486,394
Total capital assets, being depreciated	<u>486,394</u>		<u>486,394</u>
<i>Less: accumulated depreciation</i>		<u>(223,634)</u>	<u>(223,634)</u>
Governmental activities capital assets, net	<u>\$486,394</u>	<u>(\$223,634)</u>	<u>\$262,760</u>

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Restated Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Governmental Activities:				
Capital assets, being depreciated:				
Furniture and equipment	\$486,394	\$53,488	(\$6,045)	\$533,837
Total capital assets, being depreciated	<u>486,394</u>	<u>53,488</u>	<u>(6,045)</u>	<u>533,837</u>
<i>Less: accumulated depreciation:</i>				
Furniture and equipment	<u>(223,634)</u>	<u>(65,547)</u>	<u>6,045</u>	<u>(283,136)</u>
Total accumulated depreciation	<u>(223,634)</u>	<u>(65,547)</u>	<u>6,045</u>	<u>(283,136)</u>
Governmental activities capital assets, net	<u>\$262,760</u>	<u>(\$12,059)</u>	<u>\$0</u>	<u>\$250,701</u>

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

7. CAPITAL ASSETS (Continued)

C. Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$5,019
Special	12,351
Support Services:	
Pupil	6,553
Instructional staff	4,199
Administration	34,837
Fiscal	1,489
Central	803
Operation of non-instruction	<u>296</u>
Total depreciation expense	<u><u>\$65,547</u></u>

8. LONG-TERM OBLIGATIONS

The balance of the Center's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$10,934 from \$156,966 to \$167,900 due to the implementation of GASB Interpretation No. 6. The effect on the total governmental activities long-term obligations at July 1, 2003 was an increase of \$10,934 from \$156,966 to \$167,900. During fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding <u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2004</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	<u>\$ 167,900</u>	<u>\$ 67,082</u>	<u>\$ (15,484)</u>	<u>\$ 219,498</u>	<u>\$ 10,829</u>
Total long-term obligations, governmental activities	<u>\$ 167,900</u>	<u>\$ 67,082</u>	<u>\$ (15,484)</u>	<u>\$ 219,498</u>	<u>\$ 10,829</u>

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

9. COMPENSATED ABSENCES

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

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

10. RISK MANAGEMENT

A. Comprehensive

During fiscal year 2004, 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 2.A.).

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

Property General Liability:	
Bodily Injury and Property Damage	\$4,000,000
Personal and Advertising Injury Limit - Each Offense	4,000,000
Fire Damage Limit - Any One Event	500,000
Medical Expense - per occurrence/aggregate	1,000/5,000
General Aggregate Limit	6,000,000
Products - Completed Operations Limit	4,000,000
Educational Legal Liability:	
Errors or Omissions	4,000,000
Automobile Liability:	
Owned/Lease vehicles	4,000,000
Uninsured Motorist	50,000
Medical Payments - per person/accident	1,000/5,000
Employee Benefits Liability - per occurrence	1,000,000

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

B. Employee Health Insurance

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

The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the 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
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

10. RISK MANAGEMENT (Continued)

C. Workers' Compensation

For fiscal year 2004, 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.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The Center's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$195,278, \$167,044, and \$93,956, respectively; 100% has been contributed for fiscal years 2004, 2003 and 2002.

B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

11. DEFINED BENEFIT 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% 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.

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The Center's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$531,164, \$528,837, and \$117,438, respectively; 100% has been contributed for fiscal years 2004, 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$15,231 made by the Center and \$30,063 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board have elected Social Security. The Center's liability is 6.2 percent of wages paid.

12. POSTEMPLOYMENT BENEFITS

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

12. POSTEMPLOYMENT BENEFITS (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the Center, this amount equaled \$30,396 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the Center, the amount to fund health care benefits, including surcharge, equaled \$145,600 during the 2004 fiscal year.

13. BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented 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 the GAAP basis are that:

- a. Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b. Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

13. BUDGETARY BASIS OF ACCOUNTING (Continued)

- c. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	
	General Fund
Budget basis	\$682,954
Net adjustment for revenue accruals	(193,181)
Net adjustment for expenditure accruals	155,891
Net adjustment for other sources/uses	(1,454)
Adjustment for encumbrances	18,503
GAAP basis	\$662,713

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.

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The Center is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(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.

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Auditor of State Betty Montgomery

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
510 W. Water Street, Suite 210
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, 2005 and June 30, 2004, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated January 10, 2006, wherein we noted the Center implemented Government Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Center's management dated January 10, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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*. In a separate letter to the Center's management dated January 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Miami County Educational Service Center
Miami County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
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We intend this report solely for the information and use of the management and members of the Board. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

January 10, 2006



**Auditor of State
Betty Montgomery**

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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
FEBRUARY 9, 2006**