



Dave Yost • Auditor of State

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Madison-Champaign Educational Service Center
Champaign County
1512 S. US Highway 68, Suite J100
Urbana, OH 43078

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison-Champaign Educational Service Center, Champaign County, (the Center), as of and for the year ended June 30, 2010, 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.

Except as discussed in the following paragraph, 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.

Because of inadequacies in the Center's accounting records, we unable to obtain sufficient appropriate evidence regarding transportation fees for other governmental funds in the accompanying statement of revenues, expenditures and changes in fund balances (stated at \$51,016).

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had transportation fees been susceptible to satisfactory audit tests, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the aggregate remaining fund information of Madison-Champaign Educational Service Center, Champaign County, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of Madison-Champaign Educational Service Center, Champaign County, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2011, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) provides additional analysis and is not a required part of the basic financial statements. The General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as



Dave Yost
Auditor of State

April 21, 2011

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The management's discussion and analysis of the Madison-Champaign 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, 2010. 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 fiscal year 2010 are as follows:

- In total, net assets of governmental activities decreased \$373,279 which represents a 450.08% decrease from 2009. This is due to expenditures exceeding revenues and a change in capital asset threshold.
- General revenues accounted for \$1,465,895 in revenue or 13.25% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$9,594,620 or 86.75% of total revenues of \$11,060,515.
- The Center had \$11,433,794 in expenses related to governmental activities; \$9,594,620 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 \$1,465,895 were not adequate to provide for these programs.
- The Center's only major governmental fund is the general fund. The general fund had \$10,203,144 in revenues and \$10,411,119 in expenditures. During fiscal year 2010, the general fund's fund balance decreased \$207,975 from \$295,733 to \$87,758.

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 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 2010?" 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

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

In the statement of net assets and the statement of activities, the governmental activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation and food service operations.

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

Reporting the Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the Center's Fiduciary Responsibilities

The Center acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the Center's fiduciary activities are reported in a separate statement of fiduciary net assets on page 17. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

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 19-38 of this report.

Supplementary Information

The Center has presented a budgetary comparison schedule for the general fund as supplementary information on pages 39-42 of this report.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

The Center as a Whole

Recall that the statement of net assets provides the perspective of the Center as a whole.

The table below provides a summary of the Center's net assets at June 30, 2010 and June 30, 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
Assets:		
Current and other assets	\$1,454,715	\$1,595,777
Capital assets, net	101,463	304,054
Total assets	1,556,178	1,899,831
Liabilities:		
Current liabilities	1,327,941	1,317,325
Long-term liabilities	684,453	665,443
Total liabilities	2,012,394	1,982,768
Net Assets:		
Invested in capital assets, net of related debt	10,720	143,191
Restricted	96,858	68,524
Unrestricted (deficit)	(563,794)	(294,652)
Total net assets	(\$ 456,216)	(\$ 82,937)

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the Center's liabilities exceeded assets by \$456,216. Of this total, \$96,858 is restricted in use.

At year-end, capital assets represented 6.52% of total assets. Capital assets include furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$10,720. 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.

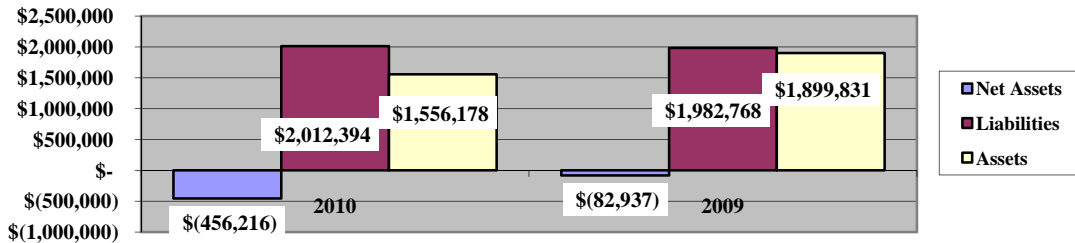
A portion of the Center's net assets, \$96,858, represents resources that are subject to external restriction on how they may be used. The remaining balance is a deficit of unrestricted net assets.

The graph below illustrates the Center's governmental activities assets, liabilities and net assets at June 30, 2010 and 2009.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

Governmental Activities



The table below shows the change in net assets for fiscal year 2010 and 2009.

	Change in Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
Revenues:		
Program Revenues:		
Charges for services and sales	\$8,959,818	\$7,994,494
Operating grants and contributions	634,802	696,387
General revenues:		
Grants and entitlements	1,278,662	1,397,766
Investment earnings	23,627	44,270
Other	163,606	185,340
Total revenues	<u>11,060,515</u>	<u>10,318,257</u>
Expenses:		
Program Expenses:		
Instruction:		
Regular	413,802	418,534
Special	3,205,840	2,732,166
Adult	26,128	24,399
Support Services:		
Pupil	2,820,231	2,558,977
Instructional staff	2,589,196	2,526,965
Board of education	30,522	10,509
Administration	1,504,526	1,439,370
Fiscal	353,986	348,976
Business	5,851	6,091
Operations and maintenance	29,259	25,173
Pupil transportation	229,331	229,910
Central	155,468	168,797
Operation of non-instructional services:		
Food service operations	61,388	67,943
Other non-instructional services		100
Extracurricular	282	198
Interest and fiscal charges	7,984	5,108
Total Expenses	<u>11,433,794</u>	<u>10,563,216</u>
Change in Net Assets	(373,279)	(244,959)
Net assets (deficit) at beginning of year	(82,937)	162,022
Net assets (deficit) at end of year	<u>(\$ 456,216)</u>	<u>(\$ 82,937)</u>

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

Governmental Activities

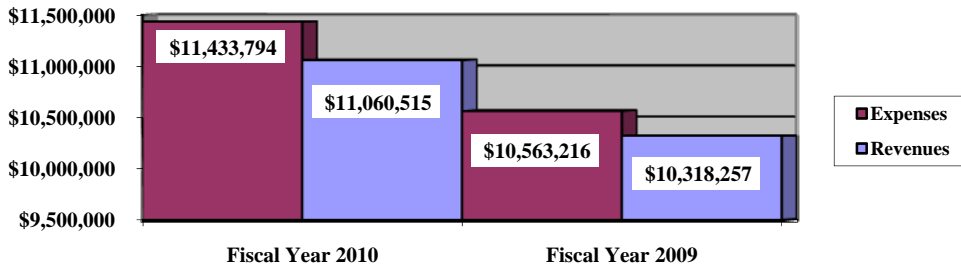
Net assets of the Center's governmental activities decreased \$373,279. Total governmental expenses of \$11,433,794 were offset by program revenues of \$9,594,620, and general revenues of \$1,465,895. Program revenues supported 83.91% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from charges for services and sales. These revenue sources represent 81.01% of total governmental revenue.

The largest expense of the Center is for support services. Support services expenses totaled 7,718,370 or 67.50% of total governmental expenses for fiscal year 2010.

The graph below presents the Center's governmental activities revenues and expenses for fiscal years 2010 and 2009.

Governmental Activities - Revenues and Expenses



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 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses:				
Instruction:				
Regular	\$ 413,802	(\$ 116,084)	\$ 418,534	(\$ 99,335)
Special	3,205,840	451,774	2,732,166	468,346
Adult	26,128	948	24,399	6,956
Support services:				
Pupil	2,820,231	352,038	2,558,977	359,506
Instructional staff	2,589,196	405,011	2,526,965	416,143
Board of education	30,522	30,522	10,509	(14,843)
Administration	1,504,526	237,217	1,439,370	259,370
Fiscal	353,986	332,175	348,976	338,688
Business	5,851	5,851	6,091	6,091
Operations and maintenance	29,259	29,259	25,173	25,173
Pupil transportation	229,331	45,894	229,910	15,649
Central	155,468	56,721	168,797	87,817

(Continued)

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

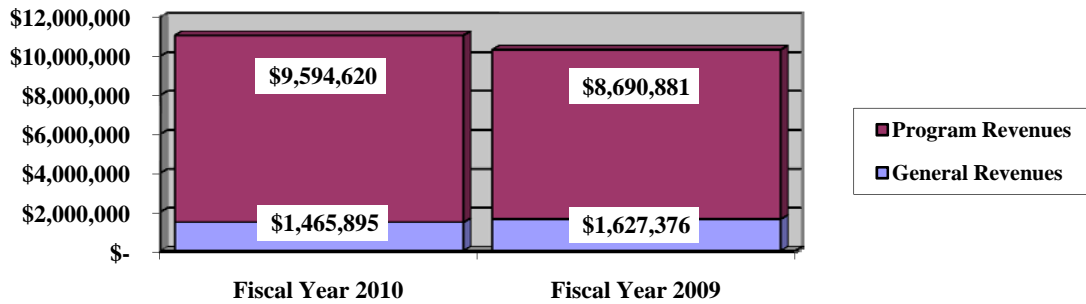
**Governmental Activities
(Continued)**

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Operation of non-instructional services:				
Food service operations	61,388	(418)	67,943	(2,632)
Other non-instructional services			100	100
Extracurricular	282	282	198	198
Interest and fiscal charges	7,984	7,984	5,108	5,108
Total expenses	\$11,433,794	\$1,839,174	\$10,563,216	\$1,872,335

For all governmental activities, program revenue support is 83.91%. The primary support of the Center is contracted fees for services provided to other school districts.

The graph below presents the Center's governmental activities revenues for fiscal years 2010 and 2009.

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds reported a combined fund balance of \$97,037 which is lower than last year's total of \$263,537. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance June 30, 2010	Fund Balance (deficit) June 30, 2009	Increase/ (Decrease)	Percentage Change
General	\$87,758	\$295,733	(\$207,975)	(70.33) %
Other Governmental	9,279	(32,196)	41,475	128.82 %
Total	\$97,037	\$263,537	(\$166,500)	(63.18) %

An analysis of the general fund revenues and expenditures is provided in the section below. The decrease in the general fund balance is primarily due to additional costs.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

General Fund

The Center's general fund balance decreased \$207,975.

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2010 Amount	2009 Amount	Increase/ (Decrease)	Percentage Change	
Revenues:					
Tuition	\$ 8,738,484	\$7,842,067	\$896,417	11.43	%
Earnings on investments	23,627	45,308	(21,681)	(47.85)	%
Intergovernmental	1,278,662	1,397,766	(119,104)	(8.52)	%
Other revenues	162,371	185,714	(23,343)	(12.57)	%
Total	<u>10,203,144</u>	<u>9,470,855</u>	<u>732,289</u>	7.73	%
Expenditures:					
Instruction	3,295,970	2,859,150	436,820	15.28	%
Support services	7,088,023	6,636,450	451,573	6.80	%
Non-instructional services		100	(100)	(100.00)	%
Extracurricular activities	282	198	84	42.42	%
Capital outlay		108,952	(108,952)	(100.00)	%
Debt service	26,844	26,155	689	2.63	%
Total	<u>\$10,411,119</u>	<u>\$9,631,005</u>	<u>\$780,114</u>	8.10	%

Tuition increased primarily due to increases in billable services and contracts paid by locals. Earnings on investments decreased due to lower interest rates on the Center's investments. Instructional services increased primarily due to an increase in special instruction during fiscal year 2010. All other revenues and expenditures remained similar to fiscal year 2009. The Center entered into a capital lease in fiscal year 2009, resulting in a \$108,952 in capital outlay expenditures in 2009. There were no new leases in fiscal year 2010.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the Center had \$101,463 invested in furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2010 balances compared to June 30, 2009:

	Capital Assets at June 30 (Net of Depreciation)	
	Governmental Activities	
	2010	2009
Furniture and equipment	\$76,266	\$271,993
Vehicles	25,197	32,061
Total	<u>\$101,463</u>	<u>\$304,054</u>

The overall decrease in capital assets of \$202,591 is due depreciation expense of \$25,390 and disposals of \$177,201 (net of accumulated depreciation) due to the increase in capital asset threshold in the fiscal year.

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

Debt Administration

At June 30, 2010, the Center had \$90,743 in capital lease obligations outstanding. Of this total, \$21,059 is due within one year and \$69,684 is due in more than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End		
	Governmental Activities 2010	Governmental Activities 2009
Capital lease obligations	<u>\$90,743</u>	<u>\$160,863</u>
Total	<u>\$90,743</u>	<u>\$160,863</u>

See Notes 8 and 9 to the basic financial statements for additional information on the Center's capital leases and debt administration.

Current Financial Related Activities

The Center is financially solvent. As the preceding information shows, the Center relies heavily on contracts with local, city, and JVS school districts in Madison and Champaign Counties, as well as state foundation revenue and grants. The need for additional services from local and city school districts, along with the Center's cash balance, will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2011.

Contacting the Center's Financial Management

This financial report is designed to provide our member districts and other interested parties 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 Mr. Matthew Ketcham, Treasurer, Madison-Champaign Educational Service Center, 1512 S. U.S. Highway 68, Urbana, Ohio 43078.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$1,218,084
Receivables:	
Intergovernmental	231,524
Accrued interest	757
Loans	424
Prepayments	3,926
Capital assets:	
Depreciable capital assets, net	101,463
Capital assets, net	101,463
Total assets	1,556,178
 Liabilities:	
Accounts payable	10,027
Accrued wages and benefits	1,091,414
Pension obligation payable	169,042
Intergovernmental payable	57,458
Long-term liabilities:	
Due within one year	41,581
Due in more than one year	642,872
Total liabilities	2,012,394
 Net Assets:	
Invested in capital assets, net of related debt	10,720
Restricted for:	
State funded programs	284
Federally funded programs	37,137
Public school support	2,102
Student activities	552
Other purposes	56,783
Unrestricted (deficit)	(563,794)
Total net assets (deficit)	(\$456,216)

See accompanying notes to the basic financial statements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	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	\$413,802	\$343,283	\$186,603	\$116,084
Special	3,205,840	2,662,357	91,709	(451,774)
Adult/continuing	26,128		25,180	(948)
Support services:				
Pupil	2,820,231	2,442,027	26,166	(352,038)
Instructional staff	2,589,196	2,147,951	36,234	(405,011)
Board of education	30,522			(30,522)
Administration	1,504,526	1,248,128	19,181	(237,217)
Fiscal	353,986	7,026	14,785	(332,175)
Business	5,851			(5,851)
Operations and maintenance	29,259			(29,259)
Pupil transportation	229,331	80,710	102,727	(45,894)
Central	155,468		98,747	(56,721)
Operation of non-instructional services:				
Food service operations	61,388	28,336	33,470	418
Extracurricular activities	282			(282)
Interest and fiscal charges	7,984			(7,984)
Total governmental activities	\$11,433,794	\$8,959,818	\$634,802	(1,839,174)
 General revenues:				
Grants and entitlements not restricted to specific programs				1,278,662
Investment earnings				23,627
Miscellaneous				163,606
Total general revenues				1,465,895
Change in net assets				(373,279)
Net assets (deficit) at beginning of year				(82,937)
Net assets (deficit) at end of year				(\$456,216)

See accompanying notes to the basic financial statements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and investments	\$1,127,641	\$90,443	\$1,218,084
Receivables:			
Intergovernmental	160,743	70,781	231,524
Interfund loans	85,716		85,716
Accrued interest	757		757
Loans	424		424
Prepayments	3,926		3,926
Total assets	1,379,207	161,224	1,540,431
Liabilities:			
Accounts payable	7,854	2,173	10,027
Accrued wages and benefits	1,066,207	25,207	1,091,414
Interfund loans payable		85,716	85,716
Pension obligation payable	162,328	6,714	169,042
Intergovernmental payable	54,686	2,772	57,458
Deferred revenue	374	29,363	29,737
Total liabilities	1,291,449	151,945	1,443,394
Fund balances:			
Reserved for encumbrances	37,762	30,063	67,825
Reserved for prepayments	3,926		3,926
Unreserved, undesignated (deficit), reported in:			
General fund	46,070		46,070
Special revenue funds		(20,784)	(20,784)
Total fund balances	87,758	9,279	97,037
Total liabilities and fund balances	\$1,379,207	\$161,224	\$1,540,431

See accompanying notes to the basic financial statements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010**

Total governmental fund balances		\$97,037
Amounts reported for governmental activities on the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		101,463
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental receivable	\$29,363	
Accrued interest receivable	<u>374</u>	
Total		29,737
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences payable	(593,710)	
Capital lease obligation	<u>(90,743)</u>	
Total		<u>(684,453)</u>
Net assets (deficit) of governmental activities		<u><u>(\$456,216)</u></u>

See accompanying notes to the basic financial statements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$8,738,484	\$107,758	\$8,846,242
Transportation fees		51,016	51,016
Earnings on investments	23,627		23,627
Charges for services		28,336	28,336
Classroom materials and fees		2,849	2,849
Other local revenues	162,371	34,432	196,803
Intergovernmental - intermediate		7,500	7,500
Intergovernmental - state	1,278,662	348,819	1,627,481
Intergovernmental - federal		252,084	252,084
Total revenues	<u>10,203,144</u>	<u>832,794</u>	<u>11,035,938</u>
Expenditures:			
Current:			
Instruction:			
Regular	256,706	150,039	406,745
Special	3,039,264	66,132	3,105,396
Adult/continuing		25,770	25,770
Support services:			
Pupil	2,652,499	125,242	2,777,741
Instructional staff	2,540,177	29,681	2,569,858
Board of education	28,807		28,807
Administration	1,439,297	16,341	1,455,638
Fiscal	326,489	21,379	347,868
Business	5,851		5,851
Operations and maintenance	27,094		27,094
Pupil transportation	7,223	201,431	208,654
Central	60,586	93,202	153,788
Operation of non-instructional services:			
Food service operations		61,388	61,388
Extracurricular activities	282		282
Debt service:			
Principal retirement	18,947	627	19,574
Interest and fiscal charges	7,897	87	7,984
Total expenditures	<u>10,411,119</u>	<u>791,319</u>	<u>11,202,438</u>
Net change in fund balances	(207,975)	41,475	(166,500)
Fund balances (deficit) at beginning of year.	295,733	(32,196)	263,537
Fund balances at end of year	<u>\$87,758</u>	<u>\$9,279</u>	<u>\$97,037</u>

See accompanying notes to the basic financial statements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN 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, 2010**

Net change in fund balances - total governmental funds (\$166,500)

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 exceeds capital outlay in the current period.

Current year depreciation (25,390)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, change in threshold, trade-ins, and donations) is to decrease net assets. (177,201)

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

Intergovernmental revenue 24,577

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 19,574

Capital lease obligation payable balance forgiven as result of terminated lease agreements. This reduces the long-term obligations on the statement of net assets. 50,546

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. (98,885)

Change in net assets of governmental activities (\$373,279)

See accompanying notes to the basic financial statements.

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2010

	<u>Agency</u>
Assets:	
Due from other governments	\$2,104
Total assets	<u>2,104</u>
Liabilities:	
Loans	424
Intergovernmental payable	1,680
Total liabilities	<u>\$2,104</u>

See accompanying notes to the basic financial statements.

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Madison-Champaign Educational Service Center (the "Center") is located in Urbana, Ohio, the Champaign County seat. The Center is an Educational Service Center as defined by Section 3311.03 of the Ohio Revised Code. The Center operates under a Board of five elected members. The Center supplies supervisory, special education, administrative and other services to the Graham, Jefferson, Jonathan Alder, Madison Plains, West Liberty-Salem, Triad Local School Districts, London and Urbana City School Districts and Mechanicsburg Exempted Village School District. The Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently. The Center is staffed by 156 non-certified employees and 148 certified employees.

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) guidance issued on or before November 30, 1989, to its governmental activities provided it does 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. 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, food service and student related activities of the Center.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's Governing Board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. 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:

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Jointly Governed Organizations

Western Ohio Computer Organization

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami and Shelby counties. WOCO 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 districts. This organization is governed by a board of directors consisting of 14 members; the superintendent of the fiscal agent Shelby County Educational Service Center, two superintendents from each county that is represented, one treasurer representative from the school districts, student services representative from the school districts, and a non-voting independent district representative. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Donn Walls, who serves as Director, at 129 East Court Street, Sidney Ohio 45365.

Metropolitan Educational Council

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 districts in 22 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, of other assessments as established by MEC. The Governing Board of MEC consists of one voting representative from each member district. To obtain financial information, write to the Metropolitan Educational Council, Ron Miller, who serves as Executive Director, 2100 Citygate Drive, Columbus, Ohio 43219.

2. Public Entity Purchasing Pool

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The Educational Service District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP) was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool. The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Champaign, Delaware, Marion, Union Schools Welfare Benefit Association Trust

The Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust (Trust), is a public entity shared risk pool consisting of eight school districts and the Madison/Champaign County and Delaware/Union County Educational Service Centers. The Trust is organized as a Voluntary Employee Benefit association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and life insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee concerning aspects of the administration of the Trust.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of monthly premiums. Financial information can be obtained from the Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust, Huntington Center HC1142, Columbus, Ohio 43287.

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 all financial 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. The Center has no trust funds. The Center's only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency fund accounts for monies due to other governments.

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, except for fiduciary funds.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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. Fiduciary funds are reported by fund type.

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.

Agency funds do not report a measurement focus as they do not report operations.

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. Fiduciary funds also use the 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2. Unearned Revenue and Deferred Revenue

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

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

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

3. Expenses/Expenditures

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

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

E. Budgetary Process

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

To improve cash management, cash received by the Center is pooled. 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 investments" on the basic financial statements.

During fiscal year 2010, investments were limited to negotiable certificates of deposit (CD's) and the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The Center has invested funds in STAR Ohio during fiscal year 2010. 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 shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$23,627, which includes \$1,646 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 fiscal year end is provided in Note 4.

G. Capital Assets

General capital assets are those assets related to activities reported in the governmental funds. 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. During fiscal year 2010, the Center raised their capitalization threshold from \$500 to \$5,000. 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:

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Description	Governmental Activities Estimated Lives
Furniture and equipment	7 - 20 years
Vehicles	10 years

H. Interfund Balances

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

Receivables and payables resulting from loans from governmental funds to the agency fund are classified as "loans receivable/payable".

I. Flow-Through Grants

The Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Center has a financial or administrative role in the grants, the grants are reported as revenues and instructional expenditures on the financial statements.

J. Compensated Absences

The Center reports compensated absences 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. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2010, 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 sick leave on employees expected to become eligible to retire in the future, all employees with at least 10 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010 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, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. Compensated absences will be paid from the fund from which the employees' salaries are paid.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. 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 and prepayments.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes includes monies restricted for food service and the Latchkey fund (non-major governmental funds).

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

N. 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.

O. 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. 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.

Q. 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 and that are either unusual in nature or infrequent in occurrence. The Center did not have any transactions that were considered a special item or extraordinary during fiscal year 2010.

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the Center has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the Center.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the Center.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the Center.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Non-major funds</u>	<u>Deficit</u>
Other grants	\$ 233
School bus driver training program	26,870
Management information systems	24
Public school preschool	1,103
Data communication	108
Alternative schools	1,869
EHA preschool grant	1,795
Miscellaneous federal grants	28,009

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 in the school bus driver training program fund, the alternative schools fund and the miscellaneous federal grant fund results from adjustments for accrued liabilities and the reporting of short-term interfund loans as a fund liability rather than as another financing source. The deficit fund balances in the remaining funds result from adjustments for accrued liabilities.

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation,

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the Center had \$600 in un-deposited cash on hand which is included on the financial statements of the Center as part of "equity in pooled cash and investments".

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all the Center deposits was \$785,345. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$323,728 of the Center's bank balance of \$823,728 was exposed to custodial risk as discussed below, while \$500,000 was covered by the FDIC.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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. The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

C. Investments

As of June 30, 2010, the Center had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
Negotiable CD's	\$424,261		\$203,360	\$61,269	\$51,507	\$108,125
STAR Ohio	7,878	\$7,878				
Total	<u>\$432,139</u>	<u>\$7,878</u>	<u>\$203,360</u>	<u>\$61,269</u>	<u>\$51,507</u>	<u>\$108,125</u>

The weighted average maturity of investments is 1.60 years.

Interest Rate Risk: Interest rate risk arises when potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. 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 two years or less. The Center has investments with maturity dates beyond the two year.

Ohio Rev. Code 135.13 requires interim deposits to mature within one year. The Center's CDs (interim deposits) matured in more than one year.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Center's investment policy does not specifically address credit risk beyond requiring the Center to only invest in securities authorized by State statute.

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, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Negotiable CD's	\$424,261	98.18
STAR Ohio	7,878	1.82
Total	<u>\$432,139</u>	<u>100.00</u>

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note:</u>	
Carrying amount of deposits	\$ 785,345
Investments	432,139
Cash on hand	600
Total	<u><u>\$1,218,084</u></u>
 <u>Cash and investments per statement of net assets:</u>	
Governmental activities	<u><u>\$1,218,084</u></u>

5. INTERFUND TRANSACTIONS

A. Loans between governmental funds and the agency fund are reported as "loans receivable/payable" on the financial statements. The Center had the following loan outstanding at fiscal year-end:

<u>Loan from</u>	<u>Loan to</u>	<u>Amount</u>
General	Agency	<u><u>\$424</u></u>

The primary purpose of the loan is to cover costs in the agency fund where revenues were not received by June 30. The loan will be repaid once the anticipated revenues are received.

B. Interfund loans receivable/payable consisted of the following at June 30, 2010, as reported on the fund statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Non-major governmental funds	<u><u>\$85,716</u></u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

6. RECEIVABLES

Receivables at June 30, 2010 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 items of receivables reported on the statement of net assets follows:

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

6. RECEIVABLES (Continued)

Governmental activities:	
Accrued interest	\$ 757
Intergovernmental	231,524
Total	\$232,281

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

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 06/30/09	Additions	Deductions	Balance 06/30/10
Governmental activities:				
Capital assets, being depreciated:				
Furniture and equipment	\$688,780		(\$579,828)	\$108,952
Vehicles	61,992		(25,997)	35,995
Total capital assets, being depreciated	750,772		(605,825)	144,947
Less: accumulated depreciation				
Furniture and equipment	(416,787)	(\$21,790)	405,891	(32,686)
Vehicles	(29,931)	(3,600)	22,733	(10,798)
Total accumulated depreciation	(446,718)	(25,390)	428,624	(43,484)
Governmental activities capital assets, net	\$304,054	(\$25,390)	(\$177,201)	\$101,463

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$ 3,600
Support services:	
Administration	21,790
Total depreciation expense	\$ 25,390

8. CAPITAL LEASES - LESSEE DISCLOSURE

In prior fiscal years, the Center has entered into capital lease agreements for copiers. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures on the fund financial statements. These expenditures are reported as function expenditures on the budgetary statement.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

8. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

General capital assets acquired by lease have been capitalized in the amount of \$108,952, which is equal to the present value of the future minimum payments as of the date of their inception. Accumulated depreciation as of June 30, 2010 was \$32,686 leaving a current book value of \$76,266. A corresponding liability was recorded and is presented as a component of long-term liabilities on the statement of net assets. Principal payments in fiscal year 2010 totaled \$18,947 paid by the general fund and \$627 paid by the school bus driver training fund (a non-major governmental fund). In addition to the amount of principal retired, the District also terminated existing leases with principal balances of \$50,546, which is included in general fund expenditures.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2010:

Fiscal Year Ending June 30,	Equipment
2011	\$27,557
2012	26,903
2013	26,844
2014	24,607
Total future minimum lease payments	105,911
Less: Amount representing interest	(15,168)
Present value of future minimum lease payment	\$90,743

9. LONG-TERM OBLIGATIONS

During fiscal year 2010, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/09	Additions	Reductions	Balance Outstanding 06/30/10	Amounts Due in One Year
Governmental activities:					
Compensated absences	\$504,580	\$146,059	(\$ 56,929)	\$593,710	\$20,522
Capital lease	160,863		(70,120)	90,743	21,059
Total long-term obligations, governmental activities	\$665,443	\$146,059	(\$127,049)	\$684,453	\$41,581

Compensated absences will be paid from the fund from which the employee is paid, which for the Center, is primarily the general fund. See Note 8 for detail on the capital lease obligation.

10. COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. All twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation time does not carry beyond the contract year in which it is earned. Accumulated unused vacation time is paid to twelve month employees upon termination of employment. Teachers do not earn vacation time.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

10. COMPENSATED ABSENCES (Continued)

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days. Upon retirement, employees with five to ten years of service are paid for one-fifth of accrued, but unused sick leave credit to a maximum of forty days, and employees with over ten years of service are paid for one-fourth of accrued, but unused sick leave credit to a maximum of fifty days.

11. RISK MANAGEMENT

A. Comprehensive

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the Center contracted for the following insurance coverages:

Coverages provided by Harcum Administrative Services, LLC are as follows:

Automobile liability	\$2,000,000
General liability	
Per occurrence	2,000,000
Aggregate	4,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in coverage from the prior fiscal year.

B. Health Care Benefits

The Center provides health insurance, prescription drug benefits, and dental insurance. The Center participates in the Champaign, Delaware, Marion, Union School Employee Welfare Association Trust (Trust) (Note 2.A.) which provides vision insurance through Vision Service Plan and life insurance through Fort Dearborn Life. Insurance premiums vary with each employee depending on marital and family status.

C. Workers' Compensation

The Center participates in the Ohio Association of School Business Officials 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 for the Center by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the State based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control and actuarial services to the GRP.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

12. PENSION PLANS

A. School Employees Retirement System

Plan Description - The Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.74 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$280,621, \$197,014 and \$188,169, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

12. PENSION PLANS (Continued)

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$642,907, \$613,849 and \$548,584, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$59,813 made by the Center and \$42,724 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board have elected Social Security. The Center's liability is 6.2 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$42,958, \$131,074 and \$113,647, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$16,688, \$16,255 and \$13,558, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The Center contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$49,454, \$47,219 and \$42,199, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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 involved in no material litigation as either plaintiff or defendant.

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 \$43.50 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.

16. SUBSEQUENT EVENT

In March 2011, the Center terminated its Commercial Driver License (CDL) Examination Program.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<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	\$8,911,610	\$8,897,792	\$8,667,071	(\$230,721)
Earnings on investments	20,192	20,000	17,887	(2,113)
Other local revenues	172,347	175,011	159,086	(15,925)
Intergovernmental - state	1,285,978	1,273,590	1,278,662	5,072
Total revenues	<u>10,390,127</u>	<u>10,366,393</u>	<u>10,122,706</u>	<u>(243,687)</u>
Expenditures:				
Current:				
Instruction:				
Regular	415,239	423,158	256,570	166,588
Special	3,076,302	3,118,774	3,064,896	53,878
Support services:				
Pupil	2,661,530	2,660,552	2,637,751	22,801
Instructional staff	2,578,693	2,592,636	2,548,568	44,068
Board of education	41,166	41,142	28,807	12,335
Administration	1,393,926	1,401,731	1,469,972	(68,241)
Fiscal	312,539	317,887	329,619	(11,732)
Business	6,213	6,208	6,120	88
Operations and maintenance	25,679	25,656	27,094	(1,438)
Pupil transportation	7,307	7,300	7,783	(483)
Central	72,252	72,547	64,868	7,679
Operation of non-instructional services	100	100		100
Extracurricular activities	200	301	282	19
Total expenditures	<u>10,591,146</u>	<u>10,667,992</u>	<u>10,442,330</u>	<u>225,662</u>
Excess of expenditures over revenues	<u>(201,019)</u>	<u>(301,599)</u>	<u>(319,624)</u>	<u>(18,025)</u>
Other financing sources (uses):				
Refund of prior year's expenditures		36	197	161
Advances in		100,959	100,959	
Advances (out)		(105,000)	(86,140)	18,860
Total other financing sources (uses)		<u>(4,005)</u>	<u>15,016</u>	<u>19,021</u>
Net change in fund balance	(201,019)	(305,604)	(304,608)	996
Fund balance at beginning of year	1,349,211	1,349,211	1,349,211	
Prior year encumbrances appropriated	30,015	30,015	30,015	
Fund balance at end of year	<u>\$1,178,207</u>	<u>\$1,073,622</u>	<u>\$1,074,618</u>	<u>\$996</u>

See accompanying notes to the basic financial statements.

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - BUDGETARY PROCESS

The Center is not required under State statute to file budgetary information with the State Department of Education. However, the Center's Board does follow the budgetary process for control purposes.

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The schedule of revenues, expenditures and changes in fund balance - budget and actual (budget basis) - for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis);
4. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
5. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

	<u>General</u>
Budget basis	(\$304,608)
Net adjustment for revenue accruals	80,438
Net adjustment for expenditure accruals	(6,551)
Net adjustment for other financing sources/ (uses)	(15,016)
Adjustment for encumbrances	37,762
GAAP basis	<u>(\$207,975)</u>



Dave Yost • Auditor of State

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

Madison-Champaign Educational Service Center
Champaign County
1512 S. US Highway 68, Suite J100
Urbana, OH 43078

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison-Champaign Educational Service Center, Champaign County, (the Center) as of and for the year ended June 30, 2010, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 21, 2011. We were unable to adequately audit transportation fees in the accompanying *statement of revenues, expenditures and changes in fund balances* for other governmental funds. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-002 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2010-003 described in the accompanying schedule of findings to be a significant deficiency.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated April 21, 2011.

The Center's response to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Center's responses and, accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State

April 21, 2011

**MADISON CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2010**

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

FINDING NUMBER 2010-001

NONCOMPLIANCE

Ohio Rev. Code Section 135.144 permits governments to use the Certificate of Deposit Account Registry Services (CDARS) or similar programs meeting Ohio Rev. Code §135.144 requirements for interim deposits. Additionally, per **Ohio Rev. Code Section 135.13**, interim deposits are certificates of deposits maturing not more than one year from the deposit date. This section also requires depositing inactive funds in certificates of deposit maturing not later than the end of the depository designation period. Furthermore, the Center's **Investment Policy #6144** states "no security will be purchased that has a remaining term to final maturity of more than two (2) years."

At June 30, 2010, the Center utilized a program similar to CDARS and invested \$409,000 in negotiable certificates of deposit for terms greater than two years. CDARS or similar programs can only be used for interim deposits, which require a maturity date of one year or less.

The Center should review its investment portfolio and verify that all investments are in accordance with the Ohio Rev. Code and Center's board approved investment policy. This will help reduce the interest rate risk and improve the Center's cash flow.

Official's Response: The Center will review and update Investment Policy #6144. Due to the rate of return and costs/penalties associated with selling the Certificates of Deposit before maturity, the Center will leave the current investments in place. However, the Center will not enter into any future investment that does not comply with the Investment Policy of the Center or Ohio Revised Code.

FINDING NUMBER 2010-002

MATERIAL WEAKNESS – CDL Testing Procedures

The Educational Service Center operated a commercial driver's license (CDL) testing center and received significant amount of money for testing. The CDL Manager collected the money and made the bank deposits while the Treasurer posted the revenues and reconciled the bank account. The following weaknesses were identified during testing of CDL receipts for 2010:

- The CDL Manager did not always prepare and maintain pre-numbered receipts for money collected.
- The Treasurer did not receive any supporting documentation for the receipts collected.
- The Treasurer did not receive copies of deposit slips for revenue received.
- The Treasurer posted the CDL receipts based on deposits and therefore reconciled monthly revenue from the bank to the bank.
- Supporting documentation over CDL testing fees was not retained.

In addition, reconciliations were not performed between collections and testing data reported to the Ohio State Highway Patrol. These weaknesses resulted in lack of evidential matter to support the total revenue received and reported for Transportation Fees. The Independent Accountants' Report has been modified to disclose this limitation.

The Board of Education and management should implement the following procedures:

- The CDL Manager should always issue pre-numbered duplicate receipts for all revenues collected.
- The CDL Manager should provide copies of duplicate receipts and deposit slips to the Treasurer by the end of the month.
- Treasurer should post revenues from supporting documentation provided by CDL Manager.
- Treasurer should reconcile the accounting records to the bank statement.
- Treasurer should compare State Highway Patrol statistics to revenue collected.
- Supporting documentation related to testing should be maintained.

These procedures will help verify the accuracy, completeness and cutoff of the CDL revenues. Failure to do so could result in errors or fraud going undetected and audit opinion modifications in future years.

Official's Response: The CDL program has been closed as of the end of February, 2011. All information from the program has been delivered to the ESC office and has been reviewed by the Treasurer.

FINDING NUMBER 2010-003

SIGNIFICANT DEFICIENCY – Latchkey Procedures

The Center received income for latchkey services. The Latchkey Supervisor collected the money and made the bank deposits while the Treasurer posted the revenues and reconciled the bank account. The following deficiencies were identified during test of Latchkey receipts for 2010:

- The Treasurer did not receive any supporting documentation for latchkey revenue received.
- The Treasurer posted the latchkey receipts based on deposits and therefore reconciled monthly revenue from bank to bank.

The Board of Education and management should implement the following procedures:

- Latchkey Supervisor should submit copies of the duplicate, pre-numbered receipts to the Treasurer by the end of the month.
- Treasurer should post revenue based on support from Latchkey Supervisor.
- Treasurer should reconcile the accounting records to the bank statement.

These procedures will help verify the completeness, accuracy and cutoff of revenue. Failure to correct these issues could result in misstated financial statements, missing funds, and/or incorrect charged fees.

Official's Response: The latchkey Supervisor will submit copies of duplicate, pre-numbered receipts to the Treasurer and the Treasurer will reconcile revenues with that information.



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MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER

CHAMPAIGN 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
JUNE 2, 2011**