



**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

REGULAR AUDIT

JULY 1, 1999 THROUGH JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Educational Service Center, Miami County, ("the Service Center") as of and for the years ended June 30, 2001, and June 30, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center, Miami County, as of June 30, 2001 and 2000, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2001, the Service Center adopted Governmental Accounting Statement No. 33.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2002, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

February 25, 2002

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**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNTS GROUPS
JUNE 30, 2001**

	<u>Governmental Fund Types</u>		<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
Assets and Other Debits					
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$2,231,196	\$110,280			\$2,341,476
Receivables:					
Intergovernmental	319,175	41,800			360,975
Interfund	25,000				25,000
Prepaid Items	3,920	604			4,524
Materials and Supplies Inventory	8,211				8,211
Fixed Assets			\$454,632		454,632
Other Debits:					
Amount to be Provided for Retirement of General Long-Term Obligations				\$162,069	162,069
Total Assets and Other Debits	<u>\$2,587,502</u>	<u>\$152,684</u>	<u>\$454,632</u>	<u>\$162,069</u>	<u>\$3,356,887</u>
Liabilities, Fund Equity and Other Credits					
Liabilities:					
Accounts Payable	\$703				\$703
Accrued Wages and Benefits Payable	634,330	18,152			652,482
Intergovernmental Payable	424,026	7,096		29,853	460,975
Interfund Payable		25,000			25,000
Deferred Revenue	46,021				46,021
Compensated Absences Payable	21,743			132,216	153,959
Total Liabilities	<u>1,126,823</u>	<u>50,248</u>		<u>162,069</u>	<u>1,339,140</u>
Fund Equity and Other Credits:					
Investment in General Fixed Assets			454,632		454,632
Fund Balance:					
Reserved for Encumbrances	55,835	11,563			67,398
Reserved for Materials and Supplies Inventory	8,211				8,211
Unreserved	1,396,633	90,873			1,487,506
Total Fund Equity and Other Credits	<u>1,460,679</u>	<u>102,436</u>	<u>454,632</u>		<u>2,017,747</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$2,587,502</u>	<u>\$152,684</u>	<u>\$454,632</u>	<u>\$162,069</u>	<u>\$3,356,887</u>

See Accompanying Notes to the General Purpose Financial Statements.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	General	Special Revenue	Total (Memorandum Only)
Revenues:			
Tuition and Fees	\$15,380		\$15,380
Interest	132,288		132,288
Intergovernmental	1,759,495	\$290,085	2,049,580
Charges for Services	4,614,157	28,623	4,642,780
Extracurricular		789	789
Gifts and Donations	4,412	40,004	44,416
Miscellaneous	26,616	2,277	28,893
Total Revenues	6,552,348	361,778	6,914,126
Expenditures:			
Current:			
Instruction:			
Regular	226,853	94,037	320,890
Special	2,152,185	17,341	2,169,526
Support Services:			
Pupils	1,528,101	49,594	1,577,695
Instructional Staff	1,217,145	69,687	1,286,832
Board of Education	14,482		14,482
Administration	961,560	1,084	962,644
Fiscal	124,109	13,872	137,981
Operation and Maintenance of Plant	6,255		6,255
Pupil Transportation	1,865		1,865
Central	100,281	1,845	102,126
Non-Instructional Services	2,154	113,253	115,407
Extracurricular		691	691
Intergovernmental		80,757	80,757
Total Expenditures	6,334,990	442,161	6,777,151
Excess of Revenues Over (Under) Expenditures	217,358	(80,383)	136,975
Other Financing Sources (Uses):			
Operating Transfers In		6,531	6,531
Operating Transfers Out	(6,531)		(6,531)
Total Other Financing Sources (Uses)	(6,531)	6,531	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	210,827	(73,852)	136,975
Fund Balances at Beginning of Year - Restated (Note 3)	1,247,032	176,306	1,423,338
Increase (Decrease) in Reserve for Inventory	2,820	(18)	2,802
Fund Balances at End of Year	\$1,460,679	\$102,436	\$1,563,115

See Accompanying Notes to the General Purpose Financial Statements.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Tuition and Fees	\$7,000	\$15,380	\$8,380			
Interest	140,000	132,131	(7,869)			
Intergovernmental	1,719,500	1,754,921	35,421	\$284,766	\$266,128	(\$18,638)
Charges for Services	4,021,969	4,588,657	566,688	28,623	28,623	
Extracurricular				893	789	(104)
Gifts and Donations		4,412	4,412	40,004	40,004	
Miscellaneous	1,231	12,881	11,650	2,277	2,277	
Total Revenues	5,889,700	6,508,382	618,682	356,563	337,821	(18,742)
Expenditures:						
Current:						
Instruction:						
Regular	282,923	245,559	37,364	96,783	96,783	
Special	2,418,287	2,296,123	122,164	18,814	18,814	
Support Services:						
Pupils	1,768,039	1,583,535	184,504	92,570	49,570	43,000
Instructional Staff	1,417,086	1,265,802	151,284	177,334	145,445	31,889
Board of Education	18,750	14,495	4,255			
Administration	1,285,184	1,025,813	259,371	2,085	1,584	501
Fiscal	135,624	125,126	10,498	18,803	14,260	4,543
Operation and Maintenance of Plant	8,600	7,825	775			
Pupil Transportation	1,675	1,161	514			
Central	95,760	94,453	1,307	5,500	1,845	3,655
Non-Instructional Services	3,372	2,162	1,210	142,107	115,706	26,401
Extracurricular				1,200	691	509
Total Expenditures	7,435,300	6,662,054	773,246	555,196	444,698	110,498
Excess of Revenues Under Expenditures	(1,545,600)	(153,672)	1,391,928	(198,633)	(106,877)	91,756
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures		13,486	13,486			
Refund of Prior Year Receipts	(14,000)	(12,919)	1,081	(300)		300
Advances In		18,287	18,287	25,000	25,000	
Advances Out	(25,000)	(25,000)		(18,287)	(18,287)	
Operating Transfers In				10,629	6,531	(4,098)
Operating Transfers Out	(6,531)	(6,531)				
Total Other Financing Sources (Uses)	(45,531)	(12,677)	32,854	17,042	13,244	(3,798)
Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	(1,591,131)	(166,349)	1,424,782	(181,591)	(93,633)	87,958
Fund Balances at Beginning of Year	1,535,340	1,535,340		180,792	180,792	
Prior Year Encumbrances Appropriated	406,803	406,803		5,434	5,434	
Fund Balances at End of Year	\$351,012	\$1,775,794	\$1,424,782	\$4,635	\$92,593	\$87,958

See Accompanying Notes to the General Purpose Financial Statements.

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**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

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

The Miami County Educational Service Center operates under a locally-elected five-member Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 125 support staff employees and 104 certified teaching personnel that provide services to the local, exempted village and city school districts.

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organizations' governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. The Educational Service Center does not have any component units.

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

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

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

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

Parent Teacher Association - The Educational Service Center is not involved in the budgeting or management, is not responsible for any debt and has no influence over the organization.

The Educational Service Center participates in four jointly governed organizations: the Metropolitan Dayton Educational Cooperative Association, the Southwestern Ohio Educational Purchasing Council, the Upper Valley Joint Vocational School, and the Miami Valley Career Technology Center. The Educational Service Center is also associated with one insurance purchasing pool, the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan. These organizations are discussed in Note 16 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Educational Service Center's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

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

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

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Governmental Fund Types:

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

General Fund

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

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

2. Account Groups:

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

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the Educational Service Center.

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the Educational Service Center.

B. Measurement Focus and Basis of Accounting

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

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Under this basis, revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, 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 Educational Service Center, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. 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 Educational Service Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from 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: grants and charges for services.

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

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

C. Budgetary Process

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

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Appropriations:

The annual appropriation resolution is enacted by the Educational Service Center at the fund, function, and object level of expenditures. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. Budgetary controls require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of the Educational Service Center. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts adopted during the current fiscal year, including all amendments and modifications. Formal budgetary integration is employed as a management control device during the year for all funds.

2. Encumbrances:

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

3. Lapsing of Appropriations:

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

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 2001, the Educational Service Center's investments were limited to funds invested in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2001.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$132,288, which includes \$7,051 assigned from other funds.

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

E. Inventory

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

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

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated.

H. Intergovernmental Revenues

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

I. Interfund Assets/Liabilities

Short-term interfund loans are classified as "interfund receivables/payables".

J. Compensated Absences

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

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

The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

K. Accrued Liabilities and Long-Term Obligations

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

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Interfund Transactions

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

M. Estimates

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

N. Fund Balance Reserves

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

O. Total Columns on General Purpose Financial Statements

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

3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For fiscal year 2001, the School District has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues".

Restatements were necessary for intergovernmental receivable due to the implementation of GASB 33. For the special revenue funds, fund balance changed by \$17,710, from \$158,596 to \$176,306 as of June 30, 2000.

4. ACCOUNTABILITY

At June 30, 2001, the title I and the preschool grant special revenue funds had deficit fund balances of \$47 and \$3,232, respectively. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING

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

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- c. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
- d. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types**

	General	Special Revenue
GAAP Basis	\$382,985	(\$73,852)
Revenue Accruals	(202,344)	(23,957)
Expenditure Accruals	112,844	14,546
Outstanding Encumbrances	(455,108)	(17,687)
Prepaid Items	2,281	604
Unrecorded Cash	(294)	0
Advances	(6,713)	6,713
Budget Basis	<u>(\$166,349)</u>	<u>(\$93,633)</u>

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

- a. 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;
- b. Bonds, notes debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- c. 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;
- d. Bonds and other obligations of the State of Ohio;
- e. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- f. The State Treasurer's investment pool (STAR Ohio);

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

- g. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
- h. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits At fiscal year end, the carrying amount of the Educational Service Center's deposits was (\$293,620) and the bank balance was \$384,133. Of the bank balance:

- 1. \$143,177 was covered by federal depository insurance; and
- 2. \$240,956 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the Educational Service Center held to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The Educational Service Center's investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The carrying value and fair value of STAR Ohio at June 30, 2001, were \$2,635,096.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$2,341,476	\$0
Investments:		
STAR Ohio	(2,635,096)	2,635,096
GASB Statement 3	(\$293,620)	\$2,635,096

7. STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. The local school districts also pay an additional \$28.50 per average daily membership. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Educational Service Center by \$37. This amount is provided from State resources.

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

8. RECEIVABLES

Receivables at June 30, 2001, consisted of intergovernmental (grants and charges for services) and interfund. All receivables, except social work reimbursements, are considered collectible in full. Intergovernmental receivable for the social work reimbursements was \$15,031 (which is net of the uncollectible portion amount of \$13,100).

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Charges for Services	\$293,818
Bureau of Workers' Compensation Refunds	704
Community Alternative Funding System	24,653
Total General Fund	319,175
Special Revenue Fund	
Early Intervention Grant	41,800
Total Intergovernmental Receivables	\$360,975

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

9. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2001 follows:

<u>Asset Category</u>	<u>Balance at 6/30/00</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/01</u>
Furniture and Equipment	\$321,895	\$140,521	\$7,784	\$454,632

10. RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the Educational Service Center contracted with Nationwide Insurance for general liability insurance and property insurance. Coverage provided by Nationwide Insurance is as follows:

Building and Contents-replacement cost (\$500 deductible)	\$246,300
Computer Hardware (\$500 deductible)	227,270
Automobile (hired, not owned)	1,000,000
General Liability	
Per occurrence	1,000,000
Total per year	1,000,000

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

B. Workers' Compensation

For fiscal year 2001, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp, Incorporated provides administrative, cost control, and actuarial services to the GRP.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$62,692, \$65,437, and \$67,610, respectively; 100 percent has been contributed for all three fiscal years.

B. State Teachers Retirement System

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

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6.0 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$382,902, \$180,369, and \$154,754, respectively; zero percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$275,092 represents the unpaid contribution for fiscal year 2001 and is recorded as a liability within the respective funds.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

12. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$181,375 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3.419 billion. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.80 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$176,134.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340 and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from Board policy and State laws. All twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time does not carry beyond the contract year in which it is earned (August 15). Accumulated, unused vacation time is paid upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for all personnel. Upon retirement, employees with five or more years of service with the Educational Service Center payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all employees.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Employee Life Insurance. Medical/surgical benefits are provided through United Health Care, while dental benefits are provided through CoreSource.

14. LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during the fiscal year 2001 were as follows:

	Amount Outstanding 6/30/00	Additions	Deletions	Amount Outstanding 6/30/01
Intergovernmental Payable	\$42,068	\$29,853	\$42,068	\$29,853
Compensated Absences	118,279	13,937	0	132,216
Total General Long-Term Obligations	<u>\$160,347</u>	<u>\$43,790</u>	<u>\$42,068</u>	<u>\$162,069</u>

Intergovernmental payable and compensated absences will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

15. INTERFUND ACTIVITY

As of June 30, 2001, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General Fund	\$25,000	\$0
Special Revenue Fund:		
Early Intervention Grant	0	25,000
Total All Funds	\$25,000	\$25,000

16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

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

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The amount paid to MDECA during fiscal year 2001 was \$19,262. Financial information can be obtained from Jerry Woodyard, who serves as director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2001, the Educational Service Center paid \$4,023 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)

Upper Valley Joint Vocational School - The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following city and/or county school districts: Piqua, Shelby, Sidney, and Troy. During fiscal year 2001, \$3,763 in financial contributions were made to the Upper Valley Joint Vocational School. To obtain financial information, write to the Upper Valley Joint Vocational School, William Stump, who serves as Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

Miami Valley Career Technology Center - The Miami Valley Career Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following city and/or exempted village school districts: Miamisburg, Milton-Union, Vandalia, Tipp City, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center and one is appointed from the Miami County Educational Service Center. No financial contributions were made to the Miami Valley Technology Center during fiscal year 2001. To obtain financial information, write to the Miami Valley Career Technology Center, Debbie Jessup, who serves as Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

B. Insurance Purchasing Pool

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

17. CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2001.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

17. CONTINGENCIES (Continued)

B. Litigation

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

18. SUBSEQUENT EVENT

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of February 25, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

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**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNTS GROUPS
JUNE 30, 2000**

	Governmental Fund Types		Account Groups		Total (Memorandum Only)
	General	Special Revenue	General Fixed Assets	General Long-Term Obligations	
Assets and Other Debits					
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$1,942,280	\$186,226			\$2,128,506
Receivables:					
Accounts	25				25
Intergovernmental	330,290	133			330,423
Interfund	18,287				18,287
Prepaid Items	1,639				1,639
Materials and Supplies Inventory	5,391	18			5,409
Fixed Assets			\$321,895		321,895
Other Debits:					
Amount to be Provided for Retirement of General Long-Term Obligations				\$160,347	160,347
Total Assets and Other Debits	2,297,912	186,377	321,895	160,347	2,966,531
Liabilities, Fund Equity and Other Credits					
Liabilities:					
Accounts Payable	2,138	1,820			3,958
Accrued Wages and Benefits Payable	531,817	5,558			537,375
Intergovernmental Payable	411,971	2,116		42,068	456,155
Interfund Payable		18,287			18,287
Deferred Revenue	100,858				100,858
Compensated Absences Payable	4,096			118,279	122,375
Total Liabilities	1,050,880	27,781	321,895	160,347	1,239,008
Fund Equity and Other Credits:					
Investment in General Fixed Assets			321,895		321,895
Fund Balance:					
Reserved for Encumbrances	65,412	2,126			67,538
Reserved for Materials and Supplies Inventory	5,391	18			5,409
Unreserved, Undesignated	1,176,229	156,452			1,332,681
Total Fund Equity and Other Credits	1,247,032	158,596	321,895	160,347	1,727,523
Total Liabilities, Fund Equity and Other Credits	\$2,297,912	\$186,377	\$321,895	\$160,347	\$2,966,531

See Accompanying Notes to the General Purpose Financial Statements.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	General	Special Revenue	Total (Memorandum Only)
Revenues:			
Tuition and Fees	\$17,962		\$17,962
Interest	110,557		110,557
Intergovernmental	1,739,273	\$278,857	2,018,130
Charges for Services	3,809,704	42,627	3,852,331
Extracurricular		672	672
Gifts and Donations	2,550	31,800	34,350
Miscellaneous	5,906	2,635	8,541
Total Revenues	5,685,952	356,591	6,042,543
Expenditures:			
Current:			
Instruction:			
Regular	176,454		176,454
Special	1,707,924	12,484	1,720,408
Support Services:			
Pupils	1,113,972	5,786	1,119,758
Instructional Staff	1,081,940	42,890	1,124,830
Board of Education	14,277		14,277
Administration	1,173,448	3,796	1,177,244
Fiscal	90,627	4,619	95,246
Pupil Transportation	105		105
Central	77,613	2,661	80,274
Non-Instructional Services	1,752	92,898	94,650
Extracurricular		905	905
Intergovernmental		71,604	71,604
Total Expenditures	5,438,112	237,643	5,675,755
 Excess of Revenues Over Expenditures	 247,840	 118,948	 366,788
 Fund Balances at Beginning of Year	 1,001,276	 39,630	 1,040,906
Increase (Decrease) in Reserve for Inventory	(2,084)	18	(2,066)
 Fund Balances at End of Year	 \$1,247,032	 \$158,596	 \$1,405,628

See Accompanying Notes to the General Purpose Financial Statements.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Tuition and Fees	\$17,962	\$17,962				
Interest	110,501	110,501				
Intergovernmental	1,734,851	1,734,851		279,324	279,324	
Charges for Services	3,658,843	3,658,843		42,707	42,707	
Extracurricular				672	672	
Gifts and Donations	2,550	2,550		31,800	31,800	
Miscellaneous	5,906	5,906		2,635	2,635	
Total Revenues	5,530,613	5,530,613		357,138	357,138	
Expenditures:						
Current:						
Instruction:						
Regular	207,204	207,204		7,934	7,934	
Special	1,877,837	1,877,837		14,472	14,472	
Support Services:						
Pupils	1,149,141	1,149,141		5,786	5,786	
Instructional Staff	1,111,854	1,111,854		107,334	107,334	
Board of Education	14,271	14,271				
Administration	1,208,482	1,208,482		3,796	3,796	
Fiscal	92,881	92,881		7,452	7,452	
Pupil Transportation	827	827				
Central	78,024	78,024		2,661	2,661	
Non-Instructional Services	1,752	1,752		90,214	90,214	
Extracurricular				905	905	
Total Expenditures	5,742,273	5,742,273		240,554	240,554	
Excess of Revenues Over (Under) Expenditures	(211,660)	(211,660)		116,584	116,584	
Other Financing Sources (Uses):						
Other Financing Sources				1,500	1,500	
Refund of Prior Year Expenditures	5,143	5,143		1,937	1,937	
Refund of Prior Year Receipts	(120)	(120)		(80)	(80)	
Advances - In	18,730	18,730		18,287	18,287	
Advances - Out	(18,287)	(18,287)		(18,730)	(18,730)	
Total Other Financing Sources (Uses)	5,466	5,466		2,914	2,914	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(206,194)	(206,194)		119,498	119,498	
Fund Balances at Beginning of Year	1,381,493	1,381,493		52,477	52,477	
Prior Year Encumbrances Appropriated	360,041	360,041		8,817	8,817	
Fund Balances at End of Year	\$1,535,340	\$1,535,340	\$0	\$180,792	\$180,792	\$0

See Accompanying Notes to the General Purpose Financial Statements.

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**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

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

The Miami County Educational Service Center operates under a locally-elected five-member Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 97 support staff employees and 85 certified teaching personnel that provide services to the local, exempted village and city school districts.

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organizations' governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. The Educational Service Center does not have any component units.

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

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

Parent Teacher Association - The Educational Service Center is not involved in the budgeting or management, is not responsible for any debt and has no influence over the organization.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

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

The Educational Service Center is associated with four jointly governed organizations: the Metropolitan Dayton Educational Cooperative Association, the Southwestern Ohio Educational Purchasing Council, the Upper Valley Joint Vocational School, and the Miami Valley Career Technology Center. The Educational Service Center is also associated with one insurance purchasing pool, the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan. These organizations are discussed in Note 15 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Educational Service Center's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

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

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

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

1. Governmental Fund Types:

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

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Fund

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

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

2. Account Groups:

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

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the Educational Service Center.

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the Educational Service Center.

B. Measurement Focus and Basis of Accounting

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

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

The modified accrual basis of accounting is followed for the governmental funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: accounts, grants, interfund and charges for services.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Educational Service Center reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Accounts and intergovernmental receivables, in some instances, are recorded as deferred revenue because they do not meet the availability criteria.

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 the governmental funds.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails preparation of budgetary documents within an established timetable.

The Educational Service Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balance and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

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

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Appropriations

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of the Educational Service Center. The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. Before closing at year end, the Educational Service Center passed appropriations to match expenditures plus encumbrances.

2. Encumbrances:

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

3. Lapsing of Appropriations

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

D. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 2000, the Educational Service Center's investments were limited to funds invested in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2000.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2000 amounted to \$110,557, which includes \$5,893 assigned from other funds.

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

E. Inventory

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2000, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

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

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated.

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Educational Service Center currently participates in several State and Federal programs, categorized as follows:

Entitlements

- General Fund
 - Community Alternative Funding System Program Reimbursement
 - State Foundation Program

Non-Reimbursable Grants

- Special Revenue Funds
 - (ODH) Early Intervention
 - Education Management Information Systems
 - Preschool
 - Early Childhood
 - TOPS Grant
 - SchoolNet Professional Development
 - Alternative Education Grant
 - Safe & Drug Free Schools Coordination Grant
 - Title I - Delinquent Children
 - Eisenhower
 - Preschool Disabilities Grant

The Educational Service Center is the primary recipient of grants which are passed-through or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants and entitlements received in governmental funds amounted to 34 percent of governmental fund revenue during the 2000 fiscal year.

I. Interfund Assets/Liabilities

Short-term interfund loans are classified as "interfund receivables/payables".

J. Compensated Absences

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

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

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

K. Accrued Liabilities and Long-Term Obligations

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

L. Interfund Transactions

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

M. Estimates

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

N. Fund Balance Reserves

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

O. Total Columns on General Purpose Financial Statements

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

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

3. ACCOUNTABILITY

At June 30, 2000, the early intervention special revenue fund had a deficit fund balance of \$2,796 which was created by the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

4. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
4. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types**

	General	Special Revenue
GAAP Basis	\$247,840	\$118,948
Revenue Accruals	(150,333)	3,984
Expenditure Accruals	102,303	2,443
Encumbrances	(406,803)	(5,434)
Prepaid Items	219	0
Unrecorded Cash	137	0
Advances	443	(443)
Budget Basis	(\$206,194)	\$119,498

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits At fiscal year end, the carrying amount of the Educational Service Center's deposits was (\$285,286) and the bank balance was \$173,472. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$73,472 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the Educational Service Center held to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The Educational Service Center's investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The carrying value and fair value of STAR Ohio at June 30, 2000, were \$2,413,792.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$2,128,506	\$0
Investments:		
STAR Ohio	(2,413,792)	2,413,792
GASB Statement 3	(\$285,286)	\$2,413,792

6. STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. The local school districts also pay an additional \$28.50 per average daily membership. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Educational Service Center by \$36. This amount is provided from State resources.

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

7. RECEIVABLES

Receivables at June 30, 2000, consisted of accounts (charges for services), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

8. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2000 follows:

<u>Asset Category</u>	<u>Restated Balance at 6/30/99</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/00</u>
Furniture and Equipment	\$149,776	\$191,071	\$18,952	\$321,895

There was no significant construction in progress at June 30, 2000.

9. RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2000, the Educational Service Center contracted with Nationwide Insurance for general liability insurance. Property is protected by Wausau Insurance. Coverages provided by Nationwide Insurance and Wausau Insurance are as follows:

Building and Contents-replacement cost (\$500 deductible)	\$ 246,300
Computer Hardware (\$500 deductible)	112,628
Automobile	1,000,000
General Liability	
Per occurrence	1,000,000
Total per year	1,000,000

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

B. Workers' Compensation

For fiscal year 2000, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Incorporated provides administrative, cost control, and actuarial services to the GRP.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2000, 5.5 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2000, 1999, and 1998 were \$65,437, \$67,610 and \$97,138, respectively; 100 percent has been contributed for the fiscal years 2000, 1999 and 1998.

B. State Teachers Retirement System

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

For the fiscal year ended June 30, 2000, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2000, 1999, and 1998 were \$180,369, \$154,754 and \$262,286, respectively; zero percent has been contributed for fiscal year 2000 and 100 percent for the fiscal years 1999 and 1998. \$180,369 represents the unpaid contribution for fiscal year 2000 and is recorded as a liability within the respective funds.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

11. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2000, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$240,492 for fiscal year 2000.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1999, (the latest information available) the balance in the Fund was \$2,783 million. For the year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000 and STRS had 95,796 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2000, employer contributions to fund health care benefits were 8.5 percent of covered payroll, an increase from 6.3 percent for fiscal year 1999. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2000, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2000 fiscal year equaled \$143,198.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1999 (the latest information available), were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999, SERS had net assets available for payment of health care benefits of \$188.0 million. SERS has approximately 51,000 participants currently receiving health care benefits.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

12. OTHER EMPLOYEE BENEFITS

A. 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. Accumulated, unused vacation time does not carry beyond the contract year in which it is earned. Accumulated, unused vacation time is paid to administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 230 days for all personnel. Upon retirement, employees with five or more years of service with the Educational Service Center payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days for all employees.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Employee Life Insurance. Medical/surgical benefits are provided through United Health Care, while dental benefits are provided through CoreSource.

13. LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during the fiscal year 2000 were as follows:

	Amount Outstanding 6/30/99	Additions	Deletions	Amount Outstanding 6/30/00
Intergovernmental Payable	\$39,936	\$42,068	\$39,936	\$42,068
Compensated Absences	91,097	27,182	0	118,279
Total General Long-Term Obligations	<u>\$131,033</u>	<u>\$69,250</u>	<u>\$39,936</u>	<u>\$160,347</u>

Intergovernmental payable and compensated absences will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

14. INTERFUND ACTIVITY

As of June 30, 2000, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General Fund	\$18,287	\$0
Special Revenue Fund:		
Early Intervention	0	18,287
Total All Funds	\$18,287	\$18,287

15. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

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

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The amount paid to MDECA during fiscal year 2000 was \$43. Financial information can be obtained from Jerry Woodyard, who serves as director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2000, the Educational Service Center paid \$2,417 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

15. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)

Upper Valley Joint Vocational School - The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from each of the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following city and/or county school districts: Piqua, Shelby, Sidney, and Troy. During fiscal year 2000, \$491 in financial contributions were made to the Upper Valley Joint Vocational School. To obtain financial information, write to the Upper Valley Joint Vocational School, William Stump, who serves as Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

Miami Valley Career Technology Center - The Miami Valley Career Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following city and/or exempted village school districts: Miamisburg, Milton-Union, Vandalia, Tipp City, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center and one is appointed from the Miami County Educational Service Center. No financial contributions were made to the Miami Valley Technology Center during fiscal year 2000. To obtain financial information, write to the Miami Valley Career Technology Center, Debbie Jessup, who serves as Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

B. Insurance Purchasing Pool

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

16. CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2000.

**EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

16. CONTINGENCIES (Continued)

B. Litigation

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

17. SUBSEQUENT EVENT

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of February 25, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

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

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

To the Board of Education:

We have audited the financial statements of Educational Service Center, Miami County, ("the Service Center") as of and for the years ended June 30, 2001 and June 30, 2000, and have issued our report thereon dated February 25, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the Service Center in a separate letter dated February 25, 2002.

Internal Control Over Financial Reporting

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

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

This report is intended for the information and use of the management and Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

February 25, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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MIAMI COUNTY EDUCATIONAL SERVICE CENTER

MIAMI COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 19, 2002**