



**Auditor of State
Betty Montgomery**

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER
PREBLE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Preble County Educational Service Center
Preble County
597 Hillcrest Drive
Eaton, Ohio 45320

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Preble County Educational Service Center, Preble County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2004, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Preble County Educational Service Center, Preble County, Ohio, as of June 30, 2004, and the respective changes in financial position, where applicable, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2006, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

April 26, 2006

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

The discussion and analysis of the Preble County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

In total, net assets decreased \$281,003, which represents a 52.94 percent decrease from 2003.

General revenues accounted for \$785,320 in revenue or 17.14 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$3,796,311 or 82.86 percent of total revenues of \$4,581,631.

The Educational Service Center had \$4,862,634 in expenses; \$3,796,311 of these expenses were offset by program specific charges for services, grants or contributions.

Among major funds, the General Fund had \$4,226,196 in revenues and \$4,583,163 in expenditures. The General Fund's balance decreased \$337,015 from 2003.

Using this General Accepted Accounting Principles Report (GAAP)

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

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

Reporting the Educational Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Educational Service Center only reports governmental activities. Governmental activities are the activities where most of the Educational Service Center's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The Educational Service Center does not have any business-type activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 7. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund and the Building Project Capital Projects Fund.

Governmental Funds

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

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

The Educational Service Center as a Whole

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

Table 1 provides a summary of the Educational Service Center's net assets for 2004 compared to 2003:

Table 1		
Net Assets		
	2003	2004
Assets		
Current and Other Assets	\$2,188,928	\$789,195
Capital Assets	456,802	1,821,700
Total Assets	2,645,730	2,610,895
Liabilities		
Long-Term Liabilities	1,514,090	1,508,410
Other Liabilities	600,845	852,693
Total Liabilities	2,114,935	2,361,103
Net Assets		
Invested in Capital Assets	429,757	451,409
Restricted	113,687	149,986
Unrestricted	(12,649)	(351,603)
Total Net Assets	\$530,795	\$249,792

Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, decreased by \$281,003. This decrease was due primarily to expenses exceeding revenues, because of an increase in pay rates of 2.1 percent for most employees and a 15.5 percent increase in health insurance, while revenues remained relatively comparable.

Table 2 shows the changes in net assets for fiscal year 2004 and 2003:

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 2
Changes in Net Assets

	2003	2004
Revenues		
Program Revenues:		
Charges for Services	\$3,146,573	\$3,349,428
Operating Grants, Contributions and Interest	580,705	446,883
Capital Grants and Contributions	1,200	0
Total Program Revenues	<u>3,728,478</u>	<u>3,796,311</u>
General Revenues:		
Grants and Entitlements	753,948	740,121
Investment Earnings	18,069	25,206
Miscellaneous	54,967	19,993
Total General Revenues	<u>826,984</u>	<u>785,320</u>
Total Revenues	<u>4,555,462</u>	<u>4,581,631</u>
Program Expenses		
Instruction	1,222,155	1,345,356
Support Services:		
Pupils and Instructional Staff	2,597,974	2,131,797
Board of Education, Administration, Fiscal and Business	655,464	633,321
Operation and Maintenance of Plant	48,934	38,971
Pupil Transportation	659,354	621,155
Central	47,828	23,297
Operation of Non-Instructional Services	3,567	5,060
Extracurricular Activities	1,980	2,774
Interest and Fiscal Charges	11,773	60,903
Total Expenses	<u>5,249,029</u>	<u>4,862,634</u>
Decrease in Net Assets	<u>(\$693,567)</u>	<u>(\$281,003)</u>

Governmental Activities

The increase of \$202,855 in program revenues for charges for services is due to the increase in student enrollment and program costs for student programs.

The decrease of \$133,822 in operating grants, contributions, and interest was primarily due to the loss of the 21st CCLC Grant. This grant amount was \$1,625,000 for four years and ended in fiscal year 2003.

The decrease of \$466,177 in program expenses for pupils and instructional staff support services is due to the loss of the 21st CCLC Grant and a reduction of a staff member.

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements.

Table 3

	<u>Total Cost of Services 2003</u>	<u>Net Cost of Services 2003</u>	<u>Total Cost of Services 2004</u>	<u>Net Cost of Services 2004</u>
Instruction	\$1,222,155	\$19,524	\$1,345,356	(\$953,720)
Support Services:				
Pupils and Instructional Staff	2,597,974	1,025,545	2,131,797	1,115,264
Board of Education, Administration				
Fiscal and Business	655,464	643,757	633,321	602,095
Operation and Maintenance of Plant	48,934	37,018	38,971	30,212
Pupil Transportation	659,354	227,811	621,155	186,438
Central	47,828	47,828	23,297	17,297
Operation of Non-Instructional Services	3,567	3,567	5,060	5,060
Extracurricular Activities	1,980	1,980	2,774	2,774
Interest and Fiscal Charges	11,773	11,773	60,903	60,903
Total Expenses	<u>\$5,249,029</u>	<u>\$2,018,803</u>	<u>\$4,862,634</u>	<u>\$1,066,323</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the Educational Service Center.

Operation and maintenance of plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Operation of non-instructional services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

Extracurricular activities includes expenses related to student activities provided by the Educational Service Center which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Interest and fiscal charges involves the transactions associated with the payment of interest and other related charges of the lease purchase agreement of the Educational Service Center.

The Educational Service Center's Funds

Information about the Educational Service Center's major funds starts on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,593,474 and expenditures of \$6,253,688. The net change in fund balance for the year in the General Fund and the Building Project Fund, were (\$337,015) and (\$1,337,426), respectively. The change in the General Fund is primarily due to increases in pay rates and in health insurance.

The decrease in the Building Project Fund is due to ongoing construction for the office building and classrooms facility project.

General Fund Budgeting Highlights

The Educational Service Center's budget is based on cash receipts, disbursements and encumbrances. The Educational Service Center's most significant budgeted fund is the General Fund. The General Fund is budgeted at the fund level. The ending unobligated cash balance was \$93,984 below the final budgeted amount for the General Fund. This was largely due to actual revenues being less than the amounts budgeted.

For the General Fund, budget basis revenue differed from the original budgeted estimates of \$4,472,428 by (\$257,395) to \$4,215,033, a 5.8 percent decrease. This decrease was primarily in tuition and fees, charges for services, and extracurricular activities due to actual program operational costs being less than projected.

Capital Assets

At the end of the fiscal year 2004, the Educational Service Center had \$1,821,700 invested in land, construction in progress, furniture, fixtures, and equipment, and vehicles.

Table 4 shows fiscal 2004 balances compared to 2003.

Table 4
Capital Assets (Net of Depreciation) at June 30,

	2003	2004
Land	\$67,956	\$67,956
Construction in Progress	48,924	1,401,320
Furniture, Fixtures and Equipment	95,690	90,968
Vehicles	244,232	261,456
Totals	<u>\$456,802</u>	<u>\$1,821,700</u>

Overall capital assets increased \$1,364,898 from fiscal year 2003 to fiscal year 2004, The increase was mainly due to construction in progress for the office building and classrooms facility project.

For more information on capital assets, see Note 8 of the Basic Financial Statements.

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Debt Administration

At June 30, 2004, the Educational Service Center had a lease-purchase agreement outstanding with the Columbus Regional Airport Authority. The lease-purchase agreement was originally dated April 24, 2003, and will be retired on January 1, 2032. The lease-purchase is financing the building of a new facility for the Educational Service Center.

During fiscal year 2004, the Educational Service Center entered into a capitalized lease for a telephone system in the amount of \$19,952.

Table 5
Outstanding Debt at June 30,

	<u>2003</u>	<u>2004</u>
Capital Leases	<u>\$1,441,000</u>	<u>\$1,433,028</u>

For more information on the Educational Service Center's debt, see Notes 13 and 14 of the Basic Financial Statements.

Current Financial Issues and Concerns

The Educational Service Center has been saving money towards the \$1,441,000 building project currently in progress. The additional costs to operate, maintain and finance a building are a new concern. There are no additional State funds to assist the Educational Service Center in this endeavor. The Educational Service Center is reviewing the budget to make necessary cuts and potential revenue increases.

In conclusion, the Preble County Educational Service Center has committed itself to financial excellence for many years. In addition, the Educational Service Center's system of financial planning, budgeting, and internal financial controls are well regarded. The Educational Service Center plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Terri Freeman, Treasurer at Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at pbbo_tf@swoca.net.

Preble County Educational Service Center
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$475,235
Accounts Receivable	500
Intergovernmental Receivable	25,623
Prepaid Items	230
Deferred Charges	23,057
Cash and Cash Equivalents with Fiscal Agents	44,174
Investments With Fiscal Agents	220,376
Land	67,956
Construction in Progress	1,401,320
Depreciable Capital Assets, Net	352,424
Total Assets	2,610,895
Liabilities:	
Accounts Payable	34,690
Contracts Payable	162,034
Accrued Wages and Benefits Payable	277,911
Intergovernmental Payable	266,031
Vacation Leave Payable	9,533
Matured Compensated Absences Payable	5,414
Retainage Payable	97,080
Long Term Liabilities:	
Due Within One Year	35,019
Due In More Than One Year	1,473,391
Total Liabilities	2,361,103
Net Assets:	
Invested in Capital Assets, Net of Related Debt	451,409
Restricted for:	
Capital Outlay	3,281
Other Purposes	146,705
Unrestricted (Deficit)	(351,603)
Total Net Assets	\$249,792

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions
			Total Governmental Activities
Governmental Activities			
Instruction:			
Regular	\$187,522	\$152,803	\$54,995
Special	1,157,834	1,826,797	264,481
Support Services:			
Pupils	1,061,865	784,749	45,944
Instructional Staff	1,069,932	122,136	63,704
Board of Education	16,172	0	0
Administration	397,871	2,222	0
Fiscal	211,993	26,004	3,000
Business	7,285	0	0
Operation and Maintenance of Plant	38,971	0	8,759
Pupil Transportation	621,155	434,717	0
Central	23,297	0	6,000
Operation of Non-Instructional Services	5,060	0	0
Extracurricular Activities	2,774	0	0
Interest and Fiscal Charges	60,903	0	0
Total Governmental Activities	<u>\$4,862,634</u>	<u>\$3,349,428</u>	<u>\$446,883</u>

General Revenues:	
Grants and Entitlements not Restricted to	
Specific Programs	740,121
Investment Earnings	25,206
Miscellaneous	19,993
Total General Revenues	<u>785,320</u>
Change in Net Assets	(281,003)
Net Assets Beginning of Year	<u>530,795</u>
Net Assets End of Year	<u>\$249,792</u>

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2004

	General	Building Project	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$250,610	\$38,737	\$185,888	\$475,235
Cash and Cash Equivalents with Fiscal Agents	0	44,174	0	44,174
Receivables:				
Accounts	500	0	0	500
Intergovernmental	0	0	25,623	25,623
Interfund	10,624	0	0	10,624
Prepaid Items	230	0	0	230
Restricted Assets:				
Investments with Fiscal Agent	0	220,376	0	220,376
Total Assets	\$261,964	\$303,287	\$211,511	\$776,762
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$17,830	\$308	\$16,552	\$34,690
Contracts Payable	0	162,034	0	162,034
Matured Compensated Absences Payable	5,414	0	0	5,414
Retainage Payable	0	97,080	0	97,080
Accrued Wages and Benefits Payable	256,680	0	21,231	277,911
Interfund	0	0	10,624	10,624
Intergovernmental Payable	219,060	904	12,715	232,679
Deferred Revenue	0	0	4,597	4,597
Total Liabilities	498,984	260,326	65,719	825,029
Fund Balances:				
Reserved for Encumbrances	65,713	48,937	13,044	127,694
Unreserved, Undesignated, (Deficit)				
Reported in:				
General Fund	(302,733)	0	0	(302,733)
Special Revenue Funds	0	0	132,748	132,748
Capital Projects Funds	0	(5,976)	0	(5,976)
Total Fund Balances (Deficit)	(237,020)	42,961	145,792	(48,267)
Total Liabilities and Fund Balances	\$261,964	\$303,287	\$211,511	\$776,762

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2004

Total Governmental Fund Balance (Deficit) (\$48,267)

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Deferred charges reported in governmental activities are expended in the funds in the year incurred and therefore are not reported as an asset in the funds. 23,057

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	67,956	
Construction in Progress	1,401,320	
Furniture, Fixture and Equipment	206,713	
Vehicles	533,033	
Accumulated Depreciation	<u>(387,322)</u>	
Total Capital Assets		1,821,700

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:
 Intergovernmental Grants 4,597

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Capital Leases Payable	(1,433,028)	
Vacation Leave Payable	(9,533)	
Compensated Absences	(75,382)	
Total Liabilities		(1,517,943)

Intergovernmental Payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.

Intergovernmental Payable (33,352)

Net assets of Governmental Activities \$249,792

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Building Project	Other Governmental Funds	Total Governmental Funds
Revenues:				
Intergovernmental	\$1,003,073	\$0	\$177,805	\$1,180,878
Interest	7,428	17,778	0	25,206
Tuition and Fees	1,042,340	0	63,439	1,105,779
Charges for Services	2,154,714	0	105,375	2,260,089
Gifts and Donations	0	0	1,529	1,529
Miscellaneous	18,641	0	1,352	19,993
Total Revenues	4,226,196	17,778	349,500	4,593,474
Expenditures:				
Current:				
Instruction:				
Regular	104,289	0	84,063	188,352
Special	1,104,133	0	12,208	1,116,341
Support Services:				
Pupils	983,299	0	81,761	1,065,060
Instructional Staff	961,194	0	101,622	1,062,816
Board of Education	16,172	0	0	16,172
Administration	396,511	0	830	397,341
Fiscal	204,206	0	3,771	207,977
Business	7,175	0	0	7,175
Operation and Maintenance of Plant	45,405	0	9,647	55,052
Pupil Transportation	620,520	0	12,693	633,213
Central	10,790	0	8,726	19,516
Operation of Non-Instructional Services	5,060	0	0	5,060
Extracurricular Activities	2,774	0	0	2,774
Capital Outlay	33,603	1,355,204	0	1,388,807
Debt Service:				
Principal	27,924	0	0	27,924
Interest and Fiscal Charges	60,108	0	0	60,108
Total Expenditures	4,583,163	1,355,204	315,321	6,253,688
Excess of Revenues Over (Under) Expenditures	(356,967)	(1,337,426)	34,179	(1,660,214)
Other Financing Sources:				
Inception of Capital Lease	19,952	0	0	19,952
Net Change in Fund Balances	(337,015)	(1,337,426)	34,179	(1,640,262)
Fund Balances at Beginning of Year	99,995	1,380,387	111,613	1,591,995
Fund Balances (Deficit) at End of Year	(\$237,020)	\$42,961	\$145,792	(\$48,267)

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds (\$1,640,262)

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

Governmental funds report capital outlays as expenditures.
 However, in the statement of activities, the cost of those
 assets is allocated over their estimated useful lives as
 depreciation expense. In the current period,
 these amounts are:

Capital Outlay	1,437,028	
Depreciation Expense	(68,515)	
Excess of Capital Outlay Over Depreciation Expense	<u>1,368,513</u>	1,368,513

The cost of disposed capital assets is removed from the capital assets
 account on the statement of net assets resulting in a loss on disposal
 of capital assets on the statement of activities.

Loss on Disposal of Capital Assets		(3,615)
------------------------------------	--	---------

Some capital additions were financed through capital leases.
 In governmental funds, a capital lease arrangement is
 considered a source of financing, but in the statement of
 net assets, the lease obligation is reported as a liability.

(19,952)

Governmental funds report deferred charges as expenditures, whereas
 this amount is deferred and amortized in the statement of activities.

(795)

Repayment of long-term debt is reported as an expenditure
 in governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets.

27,924

Some revenues that will not be collected for several months
 after the Educational Service Center's fiscal year end are not
 considered "available" revenues and are deferred in the
 governmental funds. Deferred revenues changed by these
 amounts this year:

Tuition and Fees	(4,246)	
Charges for Services	(12,194)	
Intergovernmental Grants	4,597	
Total	<u>(11,843)</u>	(11,843)

Some items reported in the statement of activities do not
 require the use of current financial resources and therefore
 are not reported as expenditures in governmental funds. These
 activities consist of:

Increase in Compensated Absences	(2,292)	
Increase in Intergovernmental Payable	(2,884)	
Decrease in Vacation Leave Payable	4,203	
Total	<u>(973)</u>	(973)

Change in Net Assets of Governmental Activities (\$281,003)

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$1,012,284	\$1,002,402	\$1,003,073	\$671
Interest	14,138	14,000	7,428	(6,572)
Tuition and Fees	1,212,217	1,200,383	1,047,360	(153,023)
Charges for Services	0	2,196,082	2,154,714	(41,368)
Extracurricular Activities	2,217,732	0	0	0
Miscellaneous	16,057	15,900	2,458	(13,442)
Total Revenues	4,472,428	4,428,767	4,215,033	(213,734)
Expenditures:				
Current:				
Instruction:				
Regular	111,396	111,956	103,780	8,176
Special	1,233,268	1,120,108	1,102,121	17,987
Support Services:				
Pupils	940,564	969,331	967,112	2,219
Instructional Staff	979,147	970,101	958,832	11,269
Board of Education	29,768	29,160	17,201	11,959
Administration	448,983	458,605	425,737	32,868
Fiscal	200,927	222,105	205,172	16,933
Business	10,630	10,005	7,522	2,483
Operation and Maintenance of Plant	91,286	71,030	62,896	8,134
Pupil Transportation	715,806	646,336	630,972	15,364
Central	57,831	19,900	19,650	250
Operation of Non-Instructional Services	3,700	5,200	5,060	140
Extracurricular Activities	3,450	3,450	2,774	676
Capital Outlay	23,163	23,163	22,516	647
Debt Service:				
Principal Retirement	26,000	26,000	26,000	0
Interest and Fiscal Charges	65,517	65,517	65,335	182
Total Expenditures	4,941,436	4,751,967	4,622,680	129,287
Excess of Revenues Under Expenditures	(469,008)	(323,200)	(407,647)	(84,447)
Other Financing Sources (Uses):				
Refund of Prior Year Expenditure	0	0	16,234	16,234
Advances - In	0	84,459	58,688	(25,771)
Advances - Out	0	(6,995)	(6,995)	0
Total Other Financing Sources (Uses)	0	77,464	67,927	(9,537)
Net Change in Fund Balances	(469,008)	(245,736)	(339,720)	(93,984)
Fund Balances at Beginning of Year	214,075	214,075	214,075	0
Prior Year Encumbrances Appropriated	254,933	254,933	254,933	0
Fund Balances at End of Year	\$0	\$223,272	\$129,288	(\$93,984)

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$1,692	\$1,868
Liabilities:		
Accounts Payable	0	\$826
Undistributed Monies	0	1,042
Total Liabilities	0	\$1,868
Net Assets:		
Held in Trust for Scholarships	\$1,692	

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

	Private Purpose Trust	
	Scholarship	
Additions		
Interest		\$28
Gifts and Donations		1,000
Total Additions		1,028
Deletions		
Payments in Accordance with Trust Agreements		532
Change in Net Assets		496
Net Assets Beginning of Year		1,196
Net Assets End of Year		\$1,692

See Accompanying Notes to the Basic Financial Statements

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Preble County Educational Service Center (the “Educational Service Center”) is located in Eaton, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to area 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 Educational Service Center operates under a locally elected governing board consisting of five members elected at-large for staggered four year terms.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the Educational Service Center are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Preble County Educational Service Center, this includes the general operations 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 organization’s governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization’s resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. The Educational Service Center has no component units.

The Educational Service Center participates in three jointly governed organizations, two insurance purchasing pools, and one shared risk pool. These organizations are the Southwest Ohio Computer Association, the Southwestern Ohio Educational Purchasing Council, the Southwestern Ohio Instructional Technology Association, the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan, the Southwestern Ohio Educational Council Property, Fleet and Liability Program, and the Preble County Consortium. Information about these organizations is presented in Notes 16, 17, and 18 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Preble County Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center’s accounting policies are described below.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The government-wide statements usually distinguish between those activities that are governmental and those that are business-type. The Educational Service Center, however, has no activities which are reported as business-type.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements:

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid 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. The Educational Service Center divides its funds into two categories: governmental and fiduciary.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds:

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

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.

Building Project Capital Projects Fund - The Building Project Capital Projects Fund accounts for the construction of a new building for the Educational Service Center.

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's only trust fund is a private purpose trust which accounts for a college scholarship program for students. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for employee reimbursements of pretax medical premiums taken out of their checks.

C. Measurement Focus

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the Statement of Net Assets. The Statement of Activities accounts for increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions:

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

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, 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 nonexchange 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, tuition and fees, and user charged services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements from other school districts received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures:

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

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

E. Cash and Cash Equivalents

To improve cash management, all 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. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

Cash held for a dispute with a contractor is held in a separate bank account. The balance in this account is presented on the financial statements as "Cash and Cash Equivalents with Fiscal Agent." Cash received through the lease-purchase agreement is held in a separate bank account by National City Bank. The balance in this account is presented on the financial statements as "Restricted Assets: Investments with Fiscal Agent."

During fiscal year 2004, the Educational Service Center's investments included Armada Government Money Market Mutual Fund, an investment with Bayerische Hypo Und Vereinsbank and the State Treasury Asset Reserve of Ohio (STAROhio). Other than STAROhio, investments are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio Statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$7,428 which includes \$2,154 assigned from other funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents. Investments with an original maturity of more than three months not purchased from the pool are reported as investments.

F. Interfund Balances

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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/expense is reported in the fiscal year in which services are consumed.

H. Issuance Costs

Issuance costs incurred with the lease-purchase agreement are deferred and amortized over the term of the lease using the straight line method since the results are not significantly different from the effective interest method. The issuance costs are recorded as deferred charges.

I. Restricted Assets

Restricted assets represent cash and cash equivalents whose use is limited by legal requirements. Such constraints are either imposed by creditors, contributors, grants, or laws of other governments or imposed by enabling legislation. Restricted assets in the Building Project Capital Projects Fund are investments that are restricted for the payments associated with the construction of the new building.

J. Capital Assets

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of one thousand five hundred dollars. The Educational Service Center does not possess 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.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	10 years

K. Accrued Liabilities and Long-term Obligations

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

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

L. 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 termination method. An accrual for earned sick leave is made to the extent it is probable that the benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

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

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

M. Fund Balance Reserves

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include Federal and State grants restricted to expenditures for specified purposes.

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

O. Estimates

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

P. Budgetary Data

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Governing Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. The Board also approves estimated resources, which shows all funding expected to be received for each fund.

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

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 3 – ACCOUNTABILITY

The following funds had deficit fund balances at June 30, 2004:

<u>Fund</u>	<u>Deficit</u>
General Fund	\$237,020
EMIS	1,574
State-Parent Mentor	1,620
Drug Free Schools	70

The General Fund deficit exists because sufficient revenues have not been generated to cover expenditures. The Educational Service Center is exploring additional revenue sources to help eliminate the deficit, such as additional room rentals. The administrative fee has been raised from 1.5 percent to 4 percent to help eliminate this deficit.

The General Fund provides transfers to cover deficit balances of other funds; however, this is done when cash is needed, rather than when accruals occur.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual is presented for the General Fund 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 (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statement. These amounts are included as revenue on the GAAP basis operating statements.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$337,015)
Net Adjustment for Revenue Accruals	(14,882)
Net Adjustment for Expenditure Accruals	89,063
Unrecorded Cash FY 2003	796
Unrecorded Cash FY 2004	(795)
Prepaid Items	(8,053)
Advances	51,693
Adjustment for Encumbrances	<u>(120,527)</u>
Budget Basis	<u><u>(\$339,720)</u></u>

NOTE 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies 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 but not limited to passbook accounts.

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

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, 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 (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interest rates on either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

Cash on Hand:

At fiscal year-end, the Educational Service Center had \$175 in undeposited cash on hand which is included on the balance sheet of the Educational Service Center as part of "Equity in Pooled Cash and Cash Equivalents."

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

Deposits:

At fiscal year-end, the carrying amount of the Educational Service Center's deposits was \$1,846 and the bank balance was \$16,369. The entire bank balance was covered by the federal depository insurance.

Investments:

The Educational Service Center's investments are required to be 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. STAROhio, and money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Unclassified</u>	<u>Fair Value</u>
Armada Government Money		
Market Mutual Fund	\$228	\$228
Investment with Bayerische		
Hypo Und Vereinsbank	220,148	220,148
STAROhio	520,948	520,948
Total	<u>\$741,324</u>	<u>\$741,324</u>

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

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

	Cash and Cash Equivalents/ Deposits	Investments
<i>GASB Statement No. 9</i>	\$522,969	\$220,376
Cash on Hand	(175)	0
Investments:		
STAR Ohio	(520,948)	520,948
<i>GASB Statement No. 3</i>	\$1,846	\$741,324

NOTE 6 – STATE AND LOCAL SCHOOL DISTRICT FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city, local, and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center’s city, local, and exempted village school districts based on each school’s total student count. The Department of Education deducts each school district’s amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center’s territory and all of the Educational Service Center’s client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center’s local and client school district an amount equal to \$6.50 times the school district’s total student count and remits this amount to the Educational Service Center.

The Educational Service Center may contract with city, exempted village, local, joint vocational, or cooperative education school districts to provide special education and related services or career-technical education services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts (tuition and charges for services), intergovernmental grants, and interfund. All receivables are considered collectible in full.

A summary of the principal items of intergovernmental receivable follows:

Governmental Activities	<u>Amounts</u>
Preschool Grant	\$20,647
Summer Institute for Reading Intervention	<u>4,976</u>
Total Intergovernmental Receivables	<u>\$25,623</u>

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/04</u>
Governmental Activities				
Capital Assets, not Being Depreciated:				
Land	\$67,956	\$0	\$0	\$67,956
Construction in Progress	<u>48,924</u>	<u>1,352,396</u>	<u>0</u>	<u>1,401,320</u>
Total Capital Assets, not Being Depreciated	<u>116,880</u>	<u>1,352,396</u>	<u>0</u>	<u>1,469,276</u>
Capital Assets, Being Depreciated:				
Furniture, Fixtures and Equipment	206,995	19,952	(20,234)	206,713
Vehicles	<u>468,353</u>	<u>64,680</u>	<u>0</u>	<u>533,033</u>
Total Capital Assets, Being Depreciated	<u>675,348</u>	<u>84,632</u>	<u>(20,234)</u>	<u>739,746</u>
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(111,305)	(21,059)	16,619	(115,745)
Vehicles	<u>(224,121)</u>	<u>(47,456)</u>	<u>0</u>	<u>(271,577)</u>
Total Accumulated Depreciation	<u>(335,426)</u>	<u>(68,515)</u> *	<u>16,619</u>	<u>(387,322)</u>
Capital Assets, Being Depreciated, Net	<u>339,922</u>	<u>16,117</u>	<u>(3,615)</u>	<u>352,424</u>
Governmental Activities Capital Assets, Net	<u>\$456,802</u>	<u>\$1,368,513</u>	<u>(\$3,615)</u>	<u>\$1,821,700</u>

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 8 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$774
Special	1,383
Support Services:	
Pupil	3,913
Instructional Staff	5,314
Administration	3,846
Fiscal	985
Operation and Maintenance of Plant	1,063
Pupil Transportation	47,456
Central	<u>3,781</u>
Total Depreciation Expense	<u><u>\$68,515</u></u>

NOTE 9 - RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the Educational Service Center contracted with Southwestern Ohio Educational Council Property, Fleet, and Liability Program (Note 17) for general liability, property, and fleet insurance.

Coverage provided by EPC is as follows:

Property (\$1,000 deductible)	\$250,000,000 (subject to scheduled limits)
Boiler and Machinery (\$2,500 deductible)	50,000,000
Auto Liability/Physical Damage (\$1,000 - deductible auto physical damage)	1,000,000
General Liability	1,000,000 / 3,000,000
Educator's Legal Liability (\$5,000 member - deductible \$15,000 for employment practices)	1,000,000 aggregate/occurrence
Umbrella Coverage	\$5,000,000 aggregate/occurrence

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been significant changes in coverage from last year due to a change in the insurance provider.

NOTE 9 - RISK MANAGEMENT (continued)

B. Workers' Compensation

For fiscal year 2004, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The Plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2004, the Educational Service Center also participated in the Preble County Consortium (the Consortium), a shared risk pool consisting of five local school districts and an educational service center (See Note 18). The Educational Service Center pays monthly premiums to the Consortium for employee medical benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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 a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$107,300, \$164,271, and \$83,749, respectively; 2.22 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$235,702, \$239,698, and \$180,534, respectively; 91.61 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$4,295 made by the Educational Service Center and \$16,863 made by the plan members.

C Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, all members of the Governing Board elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or Combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$18,131 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

NOTE 11 - POSTEMPLOYMENT BENEFITS (continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at \$25,400. For the Educational Service Center, the amount contributed to fund health care benefits during the 2004 fiscal year equaled \$79,423.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from the Educational Service Center's Board approved policies and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. The liability for vacation benefits is recorded as "Vacation Leave Payable", rather than long-term liabilities, as the balances are to be used by employees in the fiscal year following the fiscal year earned. 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, fifteen days per year. Sick leave may be accumulated up to a maximum of 190 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 30 days for all employees.

B. Dental Care

Dental insurance is provided by the Educational Service Center to most employees through Anthem Insurance.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 12 - EMPLOYEE BENEFITS (continued)

C. Life Insurance

The Educational Service Center provides life insurance to most employees through CIGNA Healthcare.

NOTE 13 - CAPITALIZED LEASE - LESSEE DISCLOSURE

The Educational Service Center entered into a lease-purchase agreement for the construction of a new building in 2003. The Educational Service Center is leasing the project site from Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the project during the lease term. Columbus Regional Airport Authority has designated National City Bank as trustee. The Columbus Regional Airport Authority deposited \$1,441,000 with the trustee for the construction. Amounts are reimbursed to the Educational Service Center for expenditures made on work completed. The Educational Service Center will make semi-annual lease payments to National City Bank. Interest rates include both fixed and variable portions. The variable interest rates are adjusted monthly based on the TBMA Index.

The agreement is recorded on the Statement of Net Assets as “Long Term Liabilities: Due Within One Year” and “Long Term Liabilities: Due In More Than One Year.” The amount of \$220,376 is still being held by the fiscal agent. Principal payments made during fiscal year 2004 totaled \$26,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$1,415,000.

In fiscal year 2004, the Educational Service Center entered into a capitalized lease for a telephone system. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. A corresponding liability was split between long-term liabilities due within one year and long-term liabilities due within more than one year on the statement of net assets. Principal payments made during fiscal year 2004 totaled \$1,924 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$18,028

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Construction in Progress	\$1,401,320	\$0	\$1,401,320
Furniture, Fixtures, and Equipment	19,952	1,063	18,889
Totals	<u>\$1,421,272</u>	<u>\$1,063</u>	<u>\$1,420,209</u>

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 13 - CAPITALIZED LEASE - LESSEE DISCLOSURE (continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30,	Long-Term Obligations
2005	\$95,407
2006	95,662
2007	93,219
2008	87,090
2009	88,077
2010-2014	441,979
2015-2019	444,084
2020-2024	448,476
2025-2029	452,581
2030-2033	301,496
Total minimum lease payments	2,548,071
Less: amount representing interest and charges	(1,105,043)
Present value of minimum lease payments	<u>\$1,443,028</u>

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2004 were as follows:

	Amount Outstanding 6/30/03	Additions	Deductions	Amount Outstanding 6/30/04	Amounts Due in One Year
Capital Lease	\$1,441,000	\$19,952	\$27,924	\$1,433,028	\$34,185
Compensated Absences	73,090	35,661	33,369	75,382	834
Total Governmental Activities					
Long-Term Liabilities	<u>\$1,514,090</u>	<u>\$55,613</u>	<u>\$61,293</u>	<u>\$1,508,410</u>	<u>\$35,019</u>

The capital leases will be paid from the General Fund.

Compensated absences will be paid from the General Fund, and the Educational Management Information System, Preschool, and State-Parent Mentor Special Revenue Funds.

NOTE 15 - INTERFUND ACTIVITY

The General Fund had an interfund receivable of \$10,624 and the nonmajor funds had an interfund payable of \$10,624 at June 30, 2004. General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the General Fund for advancing monies to other funds due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund reimburses the General Fund for the initial advance.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

Southwest Ohio Computer Association - The Educational Service Center is a participant in the Southwest Ohio Computer Association (SWOCA) which is a computer consortium. SWOCA is an association of public school districts and educational service centers within the boundaries of Butler, Warren, and Preble Counties.

The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among members. The governing board of SWOCA consists of one representative from each entity plus one representative from the fiscal agent. The Educational Service Center paid SWOCA \$6,391 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Educational Purchasing Council - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council 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 2004, the Preble County Educational Service Center paid \$33,595 in fees to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Drive, Suite 208, Vandalia, Ohio 45377.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative will be elected by the non-public school SOITA members in the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2004, the Preble County Educational Service Center paid \$2,749 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

NOTE 17 - INSURANCE PURCHASING POOLS

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

Southwestern Ohio Educational Council Property, Fleet, and Liability Program - The Educational Service Center participates in the Southwestern Ohio Educational Council Property, Fleet and Liability Program (PFL). The PFL's business and affairs are conducted by a six member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the Property, Fleet, and Liability Program of the SOEPC is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating Educational Service Centers.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 18 - SHARED RISK POOL

Preble County Consortium - The Preble County Consortium (the Consortium), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center. The Consortium is governed by an advisory committee consisting of each member's superintendent or designee from each participating school district. Premiums are paid on a monthly basis to the Consortium and their designated insurance company. The Consortium is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Consortium may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Consortium. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

NOTE 19 – SIGNIFICANT CONTRACTUAL COMMITMENTS

At June 30, 2004, the Educational Service Center had significant contractual purchase commitments as follows:

Vendor	Project	Contract Amount	Amount Expended	Balance at 6/30/04
Calvary Contracting, Inc.	New Building	\$888,652	\$742,082	\$146,570
J & H Mechanical	New Building	72,500	64,529	7,971
Donnell Inc.	New Building	222,000	179,408	42,592
Scott's Electric	New Building	135,245	82,874	52,371
		<u>\$1,318,397</u>	<u>\$1,068,893</u>	<u>\$249,504</u>

NOTE 20 - 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, 2004.

B. Litigation

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

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 21 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the Educational Service Center has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". This Statement further defines the guidelines of *GASB Statement No. 14, "The Financial Reporting Entity"*. The implementation of this new statement had no effect on the Educational Service Center's financial statements for fiscal year 2004.

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**Auditor of State
Betty Montgomery**

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

Preble County Educational Service Center
Preble County
597 Hillcrest Drive
Eaton, Ohio 45320

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Preble County Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 2004, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated April 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Educational Service Center's management dated April 26, 2006, we reported other matters related to noncompliance we deemed immaterial.

Preble County Educational Service Center
Preble County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, and Board of Education. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 26, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

PREBLE COUNTY EDUCATIONAL SERVICE CENTER

PREBLE 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
MAY 16, 2006**