



**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**REGULAR AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 1999**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



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## REPORT OF INDEPENDENT ACCOUNTANTS

Preble County Educational Service Center  
Preble County  
101 East Main Street  
Eaton, Ohio 45320

To the Governing Body:

We have audited the accompanying general-purpose financial statements of the Preble County Educational Service Center, Preble County, Ohio (the Service Center), as of and for the fiscal year ended June 30, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Preble County Educational Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Preble County Educational Service Center, as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As more fully described in Note 3 to the general-purpose financial statements, the Educational Service Center changed its method of accounting for certain investments in conformity with GASB Statement No. 32, "Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans".

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2000 on our consideration of the Preble County Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

A handwritten signature in black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

March 1, 2000



**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1999**

|   | <u>GOVERNMENTAL FUND TYPES</u> |                            | <u>FIDUCIARY<br/>FUND TYPES</u> | <u>ACCOUNT GROUPS</u>               |  | <u>TOTAL<br/>(MEMORANDUM<br/>ONLY)</u> |
|---|--------------------------------|----------------------------|---------------------------------|-------------------------------------|--|--|
|   | <u>GENERAL</u>                 | <u>SPECIAL<br/>REVENUE</u> | <u>TRUST AND<br/>AGENCY</u>     | <u>GENERAL<br/>FIXED<br/>ASSETS</u> | <u>GENERAL<br/>LONG-TERM<br/>OBLIGATIONS</u> |  |
| <b>Assets and Other Debits</b>                                    |                                |                            |                                 |                                     |  |  |
| <b>Assets:</b>  |                                |                            |                                 |                                     |  |  |
| Equity in Pooled Cash and<br>Cash Equivalents                     | \$734,262                      | \$233,393                  | \$111,185                       | \$0                                 | \$0  | \$1,078,840                            |
| Receivables:  |                                |                            |                                 |                                     |  |  |
| Intergovernmental   | 73,016                         | 65,784                     | 1,335                           | 0                                   | 0  | 140,135                                |
| Interfund   | 39,688                         | 0                          | 0                               | 0                                   | 0  | 39,688                                 |
| Prepaid Items   | 5,056                          | 198                        | 0                               | 0                                   | 0  | 5,254                                  |
| Restricted Assets:  |                                |                            |                                 |                                     |  |  |
| Equity in Pooled Cash and Cash Equivalents                        | 46,506                         |                            |                                 |                                     |  | 46,506                                 |
| Fixed Assets  | 0                              | 0                          | 0                               | 553,913                             | 0  | 553,913                                |
| <b>Other Debits:</b>  |                                |                            |                                 |                                     |  |  |
| Amount to be Provided for Retirement<br>of General Long-Term Debt | 0                              | 0                          | 0                               | 0                                   | 75,394                                       | 75,394                                 |
| <b>Total Assets and Other Debits</b>                              | <u>\$898,528</u>               | <u>\$299,375</u>           | <u>\$112,520</u>                | <u>\$553,913</u>                    | <u>\$75,394</u>                              | <u>\$1,939,730</u>                     |
| <b>Liabilities, Fund Equity and Other Credits</b>                 |                                |                            |                                 |                                     |  |  |
| <b>Liabilities:</b>   |                                |                            |                                 |                                     |  |  |
| Accounts Payable  | \$19,276                       | \$3,526                    | \$425                           | \$0                                 | \$0  | \$23,227                               |
| Accrued Wages Payable   | 214,665                        | 21,004                     | 0                               | 0                                   | 0  | 235,669                                |
| Intergovernmental Payable   | 202,009                        | 7,262                      | 1,797                           | 0                                   | 17,870                                       | 228,938                                |
| Interfund Payable   | 0                              | 39,688                     | 0                               | 0                                   | 0  | 39,688                                 |
| Undistributed Monies  | 0                              | 0                          | 109,260                         | 0                                   | 0  | 109,260                                |
| Deferred Revenue  | 39,179                         | 0                          | 0                               | 0                                   | 0  | 39,179                                 |
| Compensated Absences Payable                                      | 6,452                          | 153                        | 0                               | 0                                   | 57,524                                       | 64,129                                 |
| <b>Total Liabilities</b>  | <u>481,581</u>                 | <u>71,633</u>              | <u>111,482</u>                  | <u>0</u>                            | <u>75,394</u>                                | <u>740,090</u>                         |
| <b>Fund Equity and Other Credits:</b>                             |                                |                            |                                 |                                     |  |  |
| Investment in General Fixed Assets                                | 0                              | 0                          | 0                               | 553,913                             | 0  | 553,913                                |
| Fund Balance:   |                                |                            |                                 |                                     |  |  |
| Reserved for Encumbrances   | 222,040                        | 36,091                     | 0                               | 0                                   | 0  | 258,131                                |
| Reserved for School Bus Purchases                                 | 46,506                         |                            |                                 |                                     |  | 46,506                                 |
| Unreserved, Undesignated  | 148,401                        | 191,651                    | 1,038                           | 0                                   | 0  | 341,090                                |
| <b>Total Fund Equity and Other Credits</b>                        | <u>416,947</u>                 | <u>227,742</u>             | <u>1,038</u>                    | <u>553,913</u>                      | <u>0</u>                                     | <u>1,199,640</u>                       |
| <b>Total Liabilities, Fund Equity<br/>and Other Credits</b>       | <u>\$898,528</u>               | <u>\$299,375</u>           | <u>\$112,520</u>                | <u>\$553,913</u>                    | <u>\$75,394</u>                              | <u>\$1,939,730</u>                     |

See Accompanying Notes to the General Purpose Financial Statements

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

|                                      | <u>GOVERNMENTAL FUND TYPES</u> |                                  | <u>FIDUCIARY</u>                  | <u>TOTAL</u><br><u>(MEMORANDUM</u><br><u>ONLY)</u> |
|--------------------------------------|--------------------------------|----------------------------------|-----------------------------------|--|
|                                      | <u>GENERAL</u>                 | <u>SPECIAL</u><br><u>REVENUE</u> | <u>EXPENDABLE</u><br><u>TRUST</u> |  |
| <b>Revenues:</b>                     |                                |                                  |                                   |  |
| Intergovernmental                    | \$1,081,871                    | \$331,942                        | \$0                               | \$1,413,813  |
| Interest                             | 50,378                         | 0                                | 36                                | 50,414   |
| Tuition and Fees                     | 790,393                        | 47,609                           | 0                                 | 838,002  |
| Gifts and Donations                  | 280                            | 1,578                            | 1,000                             | 2,858  |
| Charges for Services                 | 1,520,158                      | 27,911                           | 0                                 | 1,548,069  |
| Miscellaneous                        | 20,304                         | 1,117                            | 0                                 | 21,421   |
| Total Revenues                       | <u>3,463,384</u>               | <u>410,157</u>                   | <u>1,036</u>                      | <u>3,874,577</u>                                   |
| <b>Expenditures:</b>                 |                                |                                  |                                   |  |
| Current:                             |                                |                                  |                                   |  |
| Instruction:                         |                                |                                  |                                   |  |
| Regular                              | 65,367                         | 42,710                           | 0                                 | 108,077  |
| Special                              | 1,373,933                      | 8,690                            | 0                                 | 1,382,623  |
| Vocational                           | 1,202                          | 0                                | 0                                 | 1,202  |
| Adult/Continuing                     | 0                              | 9,845                            | 0                                 | 9,845  |
| Support Services:                    |                                |                                  |                                   |  |
| Pupils                               | 565,565                        | 41,357                           | 0                                 | 606,922  |
| Instructional Staff                  | 256,546                        | 193,727                          | 0                                 | 450,273  |
| Board of Education                   | 11,828                         | 0                                | 0                                 | 11,828   |
| Administration                       | 347,932                        | 1,948                            | 0                                 | 349,880  |
| Fiscal                               | 149,364                        | 0                                | 0                                 | 149,364  |
| Business                             | 10,530                         | 0                                | 0                                 | 10,530   |
| Operation and Maintenance of Plant   | 43,854                         | 6,860                            | 0                                 | 50,714   |
| Pupil Transportation                 | 490,250                        | 6,349                            | 0                                 | 496,599  |
| Central                              | 7,129                          | 33                               | 0                                 | 7,162  |
| Extracurricular Activities           | 2,350                          | 0                                | 0                                 | 2,350  |
| Non-Instructional Services           | 0                              | 0                                | 0                                 | 0  |
| Intergovernmental                    | 0                              | 66,169                           | 0                                 | 66,169   |
| Total Expenditures                   | <u>3,325,850</u>               | <u>377,688</u>                   | <u>0</u>                          | <u>3,703,538</u>                                   |
| Excess of Revenues Over Expenditures | 137,534                        | 32,469                           | 1,036                             | 171,039  |
| Fund Balances at Beginning of Year   | 287,804                        | 195,273                          | 2                                 | 483,079  |
| Decrease in Reserve for Inventory    | <u>(8,391)</u>                 | <u>0</u>                         | <u>0</u>                          | <u>(8,391)</u>                                     |
| Fund Balances at End of Year         | <u>\$416,947</u>               | <u>\$227,742</u>                 | <u>\$1,038</u>                    | <u>\$645,727</u>                                   |

See Accompanying Notes to the General Purpose Financial Statements



**PREBLE COUNTY EDUCATIONAL SERVICE CENTER**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

|   | GENERAL FUND   |             |                                  | SPECIAL REVENUE FUNDS |           |                                  | EXPENDABLE TRUST FUNDS |         |                                  |
|---|----------------|-------------|----------------------------------|-----------------------|-----------|----------------------------------|------------------------|---------|----------------------------------|
|   | REVISED BUDGET | ACTUAL      | VARIANCE FAVORABLE (UNFAVORABLE) | REVISED BUDGET        | ACTUAL    | VARIANCE FAVORABLE (UNFAVORABLE) | REVISED BUDGET         | ACTUAL  | VARIANCE FAVORABLE (UNFAVORABLE) |
| <b>Revenues:</b>  |                |             |                                  |                       |           |                                  |                        |         |                                  |
| Intergovernmental   | \$1,916,474    | \$1,048,972 | (\$867,502)                      | \$344,173             | \$270,310 | (\$73,863)                       | \$0                    | \$0     | \$0                              |
| Interest  | 25,000         | 45,084      | 20,084                           | 0                     | 0         | 0                                | 0                      | 31      | 31                               |
| Tuition and Fees  | 622,999        | 790,641     | 167,642                          | 52,869                | 48,012    | (4,857)                          | 0                      | 0       | 0                                |
| Gifts and Donations   | 245            | 280         | 35                               | 700                   | 1,578     | 878                              | 1,000                  | 1,000   | 0                                |
| Charges for Services  | 888,506        | 1,520,158   | 631,652                          | 25,334                | 27,911    | 2,577                            | 0                      | 0       | 0                                |
| Miscellaneous   | 18,065         | 26,563      | 8,498                            | 900                   | 1,057     | 157                              | 0                      | 0       | 0                                |
| Total Revenues  | 3,471,289      | 3,431,698   | (39,591)                         | 423,976               | 348,868   | (75,108)                         | 1,000                  | 1,031   | 31                               |
| <b>Expenditures:</b>  |                |             |                                  |                       |           |                                  |                        |         |                                  |
| Current:  |                |             |                                  |                       |           |                                  |                        |         |                                  |
| Instruction:  |                |             |                                  |                       |           |                                  |                        |         |                                  |
| Regular   | 158,006        | 64,820      | 93,186                           | 65,416                | 44,725    | 20,691                           | 0                      | 0       | 0                                |
| Special   | 1,562,236      | 1,423,924   | 138,312                          | 13,589                | 9,285     | 4,304                            | 0                      | 0       | 0                                |
| Vocational  | 111,563        | 20,114      | 91,449                           | 0                     | 0         | 0                                | 0                      | 0       | 0                                |
| Adult/Continuing  | 0              | 0           | 0                                | 11,480                | 11,065    | 415                              | 0                      | 0       | 0                                |
| Support Services:   |                |             |                                  |                       |           |                                  |                        |         |                                  |
| Pupils  | 635,021        | 551,248     | 83,773                           | 93,404                | 76,082    | 17,322                           | 0                      | 0       | 0                                |
| Instructional Staff   | 270,481        | 236,635     | 33,846                           | 358,640               | 251,948   | 106,692                          | 0                      | 0       | 0                                |
| Board of Education  | 13,086         | 12,701      | 385                              | 0                     | 0         | 0                                | 0                      | 0       | 0                                |
| Administration  | 383,429        | 363,457     | 19,972                           | 3,908                 | 3,125     | 783                              | 0                      | 0       | 0                                |
| Fiscal  | 132,385        | 130,679     | 1,706                            | 45                    | 0         | 45                               | 0                      | 0       | 0                                |
| Business  | 12,205         | 10,401      | 1,804                            | 844                   | 0         | 844                              | 0                      | 0       | 0                                |
| Operation and Maintenance of Plant  | 62,605         | 46,568      | 16,037                           | 25,665                | 7,863     | 17,802                           | 0                      | 0       | 0                                |
| Pupil Transportation  | 686,763        | 632,073     | 54,690                           | 14,140                | 6,349     | 7,791                            | 0                      | 0       | 0                                |
| Central   | 27,074         | 10,979      | 16,095                           | 20,600                | 33        | 20,567                           | 0                      | 0       | 0                                |
| Non-Instructional Services  | 0              | 0           | 0                                | 0                     | 0         | 0                                | 1,033                  | 0       | 1,033                            |
| Extracurricular Activities  | 4,079          | 3,840       | 239                              | 0                     | 0         | 0                                | 0                      | 0       | 0                                |
| Total Expenditures  | 4,058,933      | 3,507,439   | 551,494                          | 607,731               | 410,475   | 197,256                          | 1,033                  | 0       | 1,033                            |
| Excess of Revenues Over (Under) Expenditures  | (587,644)      | (75,741)    | 511,903                          | (183,755)             | (61,607)  | 122,148                          | (33)                   | 1,031   | 1,064                            |
| <b>Other Financing Sources (Uses):</b>  |                |             |                                  |                       |           |                                  |                        |         |                                  |
| Refund of Prior Year Expenditures   | 0              | 1,865       | 1,865                            | 0                     | 60        | 60                               | 0                      | 0       | 0                                |
| Advances In   | 34,239         | 30,767      | (3,472)                          | 39,738                | 39,738    | 0                                | 0                      | 0       | 0                                |
| Advances Out  | (39,737)       | (39,737)    | 0                                | (30,768)              | (30,768)  | 0                                | 0                      | 0       | 0                                |
| Total Other Financing Sources (Uses)  | (5,498)        | (7,105)     | (1,607)                          | 8,970                 | 9,030     | 60                               | 0                      | 0       | 0                                |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (593,142)      | (82,846)    | 510,296                          | (174,785)             | (52,577)  | 122,208                          | (33)                   | 1,031   | 1,064                            |
| Fund Balances at Beginning of Year  | 533,474        | 533,474     | 0                                | 212,068               | 212,068   | 0                                | 2                      | 2       | 0                                |
| Prior Year Encumbrances Appropriated  | 100,867        | 100,867     | 0                                | 37,825                | 37,825    | 0                                | 0                      | 0       | 0                                |
| Fund Balances (Deficit) at End of Year  | \$41,199       | \$51,495    | \$510,296                        | \$75,108              | \$197,316 | \$122,208                        | (\$31)                 | \$1,033 | \$1,064                          |

See Accompanying Notes to the General Purpose Financial Statements

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**

**NOTE 1 - REPORTING ENTITY**

The Preble County Educational Service Center operates under a locally elected governing board consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 56 support staff employees, 31 certified teaching personnel, and five administrative personnel that provide services to the city and local school districts.

A reporting entity is comprised of the primary government. The primary government 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 general operations and student related activities.

Component units are legally separate organizations for which the Educational Service Center would be 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 does not have any component units.

The Educational Service Center is associated with four organizations which are defined as jointly governed organizations, an insurance purchasing pool, and a shared risk pool. These organizations are the Southwest Ohio Computer Association, the Southwestern Ohio Educational Purchasing Council, the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan, and the Preble County Schools Regional Council of Governments. Information about these organizations is presented in Notes 16, 17, and 18 to the general purpose financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis Of Presentation - Fund Accounting**

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

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

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Governmental Fund Types:*

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

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

*Special Revenue Funds* - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

*Fiduciary Fund Types:*

Fiduciary funds are used to account for assets held by the Education Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. For the Educational Service Center, this consists of an expendable trust fund and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The Educational Service Center's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Preble County Educational Service Center is also the fiscal agent for the Preble County Family and Children First Council. This fund is reported as an agency fund on the Educational Service Center's books.

*Account Groups:*

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

*General Fixed Assets Account Group* - This account group is established to account for all fixed assets of the Educational Service Center.

*General Long-Term Obligations Account Group* - This account group is established to account for all long-term obligations of the Educational Service Center.

**B. Measurement Focus and Basis of Accounting**

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

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

The Educational Service Center reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

**C. Budgetary Process**

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

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

*Appropriations:*

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center.

The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of the Educational Service Center.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, 12 supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

*Encumbrances:*

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

*Lapsing of Appropriations:*

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

**D. Cash and Cash Equivalents**

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

During fiscal year 1999, the District's investments were limited to funds invested in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 1999.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$50,378, which includes \$19,891 assigned from other funds. The Educational Service Center also received interest in the expendable trust fund of \$36.

For presentation on the combined balance sheet, 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 considered to be cash equivalents.

**E. Inventory**

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 1999, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure is reported in the year in which services are consumed.

**G. Fixed Assets and Depreciation**

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

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. Improvements are capitalized.

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

**H. Intergovernmental Revenues**

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

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

*Entitlements*

*General Fund*

State Foundation Program  
School Bus Purchase

*Non-Reimbursable Grants*

*Special Revenue Funds*

Parent Mentor  
Public School Preschool  
Education Management Information Systems  
Eisenhower Grant  
Title VI  
Drug Free Schools  
Entry Year Grant  
GOALS 2000  
Ohio School to Work  
21<sup>st</sup> Century Learning Centers Grant

*Reimbursable Grants*

*General Fund*

Vocational Education Equipment

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Educational Service Center is the primary recipient of grants which are passed-through or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the Educational Service Center has no financial or administrative role and are passed-through to the local school district in the county are reported in an agency fund.

Grants and entitlements received in governmental funds amounted to 37 percent of governmental fund revenue during the 1999 fiscal year.

**I. Interfund Assets/Liabilities**

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

**J. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment 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 current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

**K. Accrued Liabilities and Long-Term Obligations**

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

**L. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**M. Estimates**

The preparation of 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.



**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. Restricted Assets**

Restricted assets in the general fund are cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent resources set-aside to create a reserve for school bus purchases. See Note 20 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserve.

**O. 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 and school bus purchases.

**P. Total Columns on General Purpose Financial Statements**

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

Interfund eliminations have not been made in the aggregation of this data.

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF PRIOR YEAR BALANCES**

**A. Change in Accounting Principle**

The Educational Service Center has implemented Statement No. 32 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation plan through the Ohio Public Employees Deferred Compensation Plan. At June 30, 1999, the plan had established a trust; therefore, these monies are no longer shown in the deferred compensation agency fund.

**B. Restatement of Prior Year Balances**

In the prior year report, the Educational Service Center disclosed an investment trust fund in compliance with Statement No. 31 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This year, the Educational Service Center has elected not to report this investment trust fund due to the immaterial amount of interest that is received in this fund. Because of this, the beginning assets in the agency funds increased by \$16,329 from \$87,194 to \$103,523.

The fund balance at beginning of year in the general fund was also restated due to an interfund payable that was incorrectly reported last year. Fund balance at beginning of year decreased by \$206 from \$287,598 to \$287,804.

General fixed assets were also incorrectly reported last year. The beginning balance decreased by \$254 from \$598,801 to \$598,547.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 4 - COMPLIANCE**

The following funds had an excess of appropriations over estimated resources plus available balances for the year ended June 30, 1999:

| <u>Fund Type/Fund</u>               | <u>Estimated Resources</u> | <u>Appropriations</u> | <u>Excess</u> |
|-------------------------------------|----------------------------|-----------------------|---------------|
| Special Revenue Funds:              |                            |                       |               |
| Honors Scholars Program             | \$2,608                    | \$3,147               | \$539         |
| Summer School                       | 28,302                     | 29,417                | 1,115         |
| MH Program                          | 528                        | 1,024                 | 496           |
| Preble Co. Professional Development | 52,644                     | 55,281                | 2,637         |
| Expendable Trust Fund:              |                            |                       |               |
| Charles D. Murray                   | 1,002                      | 1,033                 | 31            |

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

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

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)**

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

| Excess of Revenues and Other Financing Sources<br>Over (Under) Expenditures and Other Financing Uses<br>All Governmental Fund Types and Expendable Trust Fund |            |                    |                          |
|---|------------|--------------------|--------------------------|
|   | General    | Special<br>Revenue | Expendable<br>Trust Fund |
| GAAP Basis:   | \$137,534  | \$32,469           | \$ 1,036                 |
| Adjustments:  |            |                    |                          |
| Revenue Accruals  | (29,821)   | (61,229)           | (5)                      |
| Expenditure Accruals  | 40,381     | 4,219              | 0                        |
| Encumbrances  | (222,998)  | (37,006)           | 0                        |
| Prepays   | 1,028      | 0                  | 0                        |
| Advances  | (8,970)    | 8,970              | 0                        |
| Budget Basis  | (\$82,846) | (\$52,577)         | \$1,031                  |

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

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

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

Protection of 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.

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;

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)**

2. Bonds, notes debentures, or any other or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

***Cash on Hand*** At year end, the Educational Service Center had \$275 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, and Reverse Repurchase Agreements."

***Deposits:*** At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$18,194 and the bank balance was \$243,787. \$100,655 of the bank balance was covered by federal depository insurance and the remaining amount was covered by specific collateral. Although all statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the Educational Service Center held to a successful claim by the FDIC.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)**

*Investments:* The Educational Service Center's investments are categorized below to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value of the Educational Service Center's investment in STAR Ohio at June 30, 1999, was \$1,106,877.

**NOTE 7 - STATE FUNDING**

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Educational Service Center by \$34. This amount is provided from State resources.

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

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the Ohio General Assembly to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$777,081 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 1999, consisted of interfund and intergovernmental grants and billings for user charged services. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

|   | Amounts   |
|---|-----------|
| General Fund                            | \$73,016  |
| Special Revenue Funds:                  |           |
| Summer Recreation                       | 1,032     |
| Goals 2000                              | 40,000    |
| Drug Free Schools                       | 21,801    |
| Ohio School To Work                     | 2,951     |
| Total Special Revenue Funds Receivables | 65,784    |
| Agency Fund:                            |           |
| Family and Children First               | 1,335     |
| Total Agency Fund                       | 1,335     |
| Total Intergovernmental Receivables     | \$140,135 |

**NOTE 9 - FIXED ASSETS**

A summary of the changes in general fixed assets during fiscal year 1999 follows:

| Asset Category                       | Restated<br>Balance at<br>06/30/98 | Additions | Deletions | Balance at<br>06/30/99 |
|--------------------------------------|------------------------------------|-----------|-----------|------------------------|
| Furniture, Fixtures and<br>Equipment | \$341,571                          | \$28,737  | \$131,556 | \$238,752              |
| Vehicles                             | 256,976                            | 58,185    | 0         | 315,161                |
| Total General Fixed Assets           | \$598,547                          | \$86,922  | \$131,556 | \$553,913              |

**NOTE 10 - RISK MANAGEMENT**

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the Educational Service Center contracted with the Michael Murphy Insurance Agency, Inc. for equipment insurance. The Educational Service Center contracted with Wausau Insurance Companies (a division of Nationwide Insurance Enterprises) for general liability and automobile liability coverage.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 10 - RISK MANAGEMENT (Continued)**

Coverage provided by Michael Murphy Insurance is as follows:

|  |           |
|--|-----------|
| Equipment Insurance (\$250 deductible) | \$207,005 |
|--|-----------|

Coverage provided by Wausau Insurance is as follows:

|  |           |
|--|-----------|
| Automobile Liability (\$50 comprehensive deductible, \$250 collision deductible) | 1,000,000 |
| Medical Payments   | 5,000     |
| Uninsured Motorist Liability   | 1,000,000 |
| General Liability (aggregate)  | 5,000,000 |
| General Liability (per occurrence)   | 1,000,000 |
| Medical Payments (per person)  | 5,000     |

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

For fiscal year 1999, 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 Comp Management provides administrative, cost control and actuarial services to the GRP.

For fiscal year 1999, the Educational Service Center also participated in the Preble County Schools Regional Council of Governments (COG), 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 COG for employee medical benefits. The COG is responsible for the management and operations of the program. Upon withdrawal from the COG, a participant is responsible for the payment of all COG liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current 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 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was 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, 1999, 1998, and 1997 were \$64,506, \$72,809 and \$80,440, respectively; 100 percent has been contributed for fiscal years 1999, 1998 and 1997. \$17,870 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the general long-term obligations account group and consists of surcharge only.

**B. State Teachers Retirement System**

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 1999, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$23,240, \$142,655 and \$157,491, respectively; none has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. \$83,161 represents the unpaid contribution for fiscal year 1999 and is recorded as a liability within the respective funds.

**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, 1999, one of the members of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the 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.



**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)**

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the Educational Service Center, this amount equaled \$30,987 for fiscal year 1999.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1998, (the latest information available) the balance in the Fund was \$2,156 million. For the year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. 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 1999, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 1999 fiscal year equaled \$70,648.

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 125 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

The target level for the health care reserve is 125 percent of annual health care expenses. Expense for health care at June 30, 1997 were \$97,429,197 and the target level was \$121.8 million. At June 30, 1997, SERS had net assets available for payment of health care benefits of \$146.4 million. SERS has approximately 48,200 participants currently receiving health care benefits. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled, \$31,310 during the 1999 fiscal year.

**NOTE 13 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components 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. Teachers do not earn vacation time.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 13 - EMPLOYEE BENEFITS (Continued)**

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. Health Care Benefits**

The Educational Service Center provides health insurance benefits to employees through the Preble County Regional Council of Governments (COG) (See Note 18). The premium varies with each employee depending on marital and family status.

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

**C. Life Insurance**

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

**D. Deferred Compensation**

Educational Service Center employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan is created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

**NOTE 14 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 1999 were as follows:

|                                     | Principal<br>Outstanding<br><u>6/30/98</u> | <u>Additions</u> | <u>Deductions</u> | Principal<br>Outstanding<br><u>6/30/99</u> |
|-------------------------------------|--|------------------|-------------------|--|
| Intergovernmental Payable           | \$18,419                                   | \$17,870         | \$18,419          | \$17,870                                   |
| Compensated Absences                | <u>68,658</u>                              | <u>0</u>         | <u>11,134</u>     | <u>57,524</u>                              |
| Total General Long-Term Obligations | <u>\$87,077</u>                            | <u>\$17,870</u>  | <u>\$29,553</u>   | <u>\$75,394</u>                            |

Compensated absences will be paid from the fund from which the person is paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the person is paid.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 15 - INTERFUND ACTIVITY**

As of June 30, 1999, receivables and payables that resulted from various interfund transactions were as follows:

| <u>Fund Type/Fund</u>  | <u>Interfund</u>       | <u>Interfund</u>       |
|------------------------|------------------------|------------------------|
| General Fund           | \$39,688               | \$0                    |
| Special Revenue Funds: |                        |                        |
| Summer School          | 0                      | 2,823                  |
| Eisenhower Grant       | 0                      | 13,164                 |
| Drug Free Schools      | 0                      | 13,104                 |
| Miscellaneous Grants   | 0                      | 9,679                  |
| Title VI-B             | 0                      | 918                    |
| Total Special Revenue  | <u>0</u>               | <u>39,688</u>          |
| Total All Funds        | <u><u>\$39,688</u></u> | <u><u>\$39,688</u></u> |

**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 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 member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The Educational Service Center paid SWOCA \$6,593 for services provided during the 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 Montgomery County Educational Service Center acts as the Fiscal Agent for the group. 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 by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit 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 1999, the Preble County Educational Service Center paid \$1,050 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton 45424.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**NOTE 17 - INSURANCE PURCHASING POOL**

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

**NOTE 18 - SHARED RISK POOL**

*Preble County Schools Regional Council of Governments* - The Preble County Schools Regional Council of Governments (COG), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center. The COG 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 COG and their designated insurance company. The COG 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 COG may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the COG. Financial information can be obtained from Teresa Freeman, who serves as treasurer, at 101 E. Main Street, Eaton, Ohio 45320.

**NOTE 19 - CONTINGENCIES**

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, 1999.

**NOTE 20 - FUND RESERVES**

The Educational Service Center established a special cost center in the general fund for school bus purchases. Amounts not spent by year-end must be held in cash at year-end and carried forward to be used for the same purposes in future years. The reserve for school bus purchases on the Educational Service Center's books is \$46,506 and this amount represents restricted cash as well.



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OFFICE OF THE AUDITOR

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

Preble County Educational Service Center  
Preble County  
101 East Main Street  
Eaton, Ohio 45320

To the Governing Body:

We have audited the financial statements of the Preble County Educational Service Center, Preble County, Ohio (the Service Center), as of and for the fiscal year ended June 30, 1999, and have issued our report thereon dated March 1, 2000. The opinion includes a disclosure about changes in deferred compensation. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that we have reported to management of the Preble County Educational Service Center in a separate letter dated March 1, 2000.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

**Jim Petro**  
Auditor of State

March 1, 2000



STATE OF OHIO  
OFFICE OF THE AUDITOR

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**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  
MARCH 21, 2000**