



**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, 2005, 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.

Ohio Administrative Code § 117-2-03 (B) requires the Educational Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit certain assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash 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, 2005, and the respective changes in modified cash financial position and the budgetary comparisons for the General, Public School Preschool, and Title II-A Funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2005, the Educational Service Center revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated 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

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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 the Governmental Accounting Standards Board 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, 2005

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, 2005. 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 2005 are as follows:

In total, net assets decreased \$119,870, which represents a 12.80 percent decrease from 2004.

General revenues accounted for \$766,142 in revenue or 15.70 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$4,113,606 or 84.30 percent of total revenues of \$4,879,748.

The Educational Service Center had \$4,999,618 in expenses; \$4,113,606 of these expenses were offset by program specific charges for services, grants or contributions.

Among major funds, the General Fund had \$4,406,856 in revenues and \$4,400,491 in expenditures.

Using this Annual Financial Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Educational Service Center's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Educational Service Center as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Educational Service Center as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Educational Service Center has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Educational Service Center's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Educational Service Center as a Whole

Statement of Net Assets and Statement of Activities – Modified Cash Basis

The statement of net assets and the statement of activities reflect how the Educational Service Center did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Educational Service Center at year end. The statement of activities compares cash disbursements with program receipts for each governmental function. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Educational Service Center's general receipts.

These statements report the Educational Service Center's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Educational Service Center's financial health. Over time, increases or decreases in the Educational Service Center's cash position is one indicator of whether the Educational Service Center's financial health is improving or deteriorating.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

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, Public School Preschool and Title II-A funds.

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

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 future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general governmental 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.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the Educational Service Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the Educational Service Center's programs.

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 2005 compared to 2004:

Table 1		Net Assets	
		(Restated)	
		2004	2005
		<u>2004</u>	<u>2005</u>
Assets			
Current and Other Assets		\$739,785	\$486,086
Capital Assets		1,611,473	1,717,302
<i>Total Assets</i>		<u>2,351,258</u>	<u>2,203,388</u>
Liabilities			
Long-Term Liabilities		1,415,000	1,387,000
Net Assets			
Invested in Capital Assets, net of related debt		196,473	330,302
Restricted		489,175	234,639
Unrestricted		250,610	251,447
<i>Total Net Assets</i>		<u><u>\$936,258</u></u>	<u><u>\$816,388</u></u>

Total net assets decreased by \$119,870 from fiscal year 2004, of which restricted net assets decreased by \$254,536. Current assets, which consists of cash and cash equivalents decreased by \$253,699. These decreases were due to the completion of the building project during fiscal year 2005.

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Table 2 shows the changes in net assets for fiscal year 2005. Since this is the first year the Educational Service Center has prepared financial statements following GASB Statement No. 34 under the modified cash basis, receipt and disbursement comparisons to fiscal year 2004 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	2005
Revenues	
Program Revenues:	
Charges for Services	\$3,546,910
Operating Grants and Contributions	566,696
<i>Total Program Revenues</i>	4,113,606
General Revenues	
Grants and Entitlements	706,812
Investment Earnings	10,832
Miscellaneous	48,498
<i>Total General Revenues</i>	766,142
<i>Total Revenues</i>	4,879,748
Program Expenses	
Instruction:	
Regular	323,484
Special	1,134,179
Support Services:	
Pupil	1,021,437
Instructional Staff	981,616
Board of Education	14,467
Administration	424,107
Fiscal	192,291
Business	9,583
Operation and Maintenance of Plant	98,121
Pupil Transportation	607,199
Central	28,089
Operation of Non-Instructional Services	6,476
Extracurricular Activities	2,171
Capital Outlay	94,864
Interest and Fiscal Charges	61,534
<i>Total Expenses</i>	4,999,618
<i>Decrease in Net Assets</i>	(\$119,870)

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

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 2005</u>	<u>Net Cost of Services 2005</u>
Instruction		
Regular	\$323,484	\$6,995
Special	1,134,179	1,005,579
Support Services:		
Pupils	1,021,437	(84,222)
Instructional Staff	981,616	(790,111)
Board of Education	14,467	(14,467)
Administration	424,107	(418,147)
Fiscal	192,291	(133,807)
Business	9,583	(9,583)
Operation and Maintenance of Plant	98,121	(71,787)
Pupil Transportation	607,199	(189,328)
Central	28,089	(22,089)
Operation of Non-Instructional Services	6,476	(6,476)
Extracurricular Activities	2,171	(2,171)
Capital Outlay	94,864	(94,864)
Interest and Fiscal Charges	61,534	(61,534)
Total Expenses	<u>\$4,999,618</u>	<u>(\$886,012)</u>

The Educational Service Center's Funds

The Educational Service Center's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,879,748 and expenditures of \$5,133,447. The net change in fund balance for the year in the General, Public School Preschool, and the Title II-A Funds, were \$837, \$4,917 and \$5,968, respectively.

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

General Fund Budgeting Highlights

The Educational Service Center's budget is based on cash receipts, disbursement 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 \$163,514 above the final budgeted amount for the General Fund. This was largely due to actual expenditures being less than the amounts budgeted.

For the General Fund, budget basis revenue differed from the original budgeted estimates of \$4,579,265 by (\$198,521) to \$4,380,744. 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 2005, the Educational Service Center had \$1,556,117 invested in land, buildings, furniture, fixtures, and equipment, and vehicles.

Table 4 shows fiscal 2005 balances compared to 2004.

	<u>2004</u>	<u>2005</u>
Land	\$67,956	\$67,956
Construction in Progress	1,209,982	0
Buildings	537	1,374,420
Furniture, Fixtures and Equipment	71,542	58,382
Vehicles	261,456	216,544
<i>Totals</i>	<u>\$1,611,473</u>	<u>\$1,717,302</u>

Overall capital assets increased \$105,829 from fiscal year 2004 to fiscal year 2005, due to completion of the building project.

For more information on capital assets, see Note 7 of the Basic Financial Statements.

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Debt Administration

At June 30, 2005, 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 agreement financed the building of a new facility for the Educational Service Center.

Table 5
Outstanding Debt at June 30,

	<u>2004</u>	<u>2005</u>
Capital Leases	<u>\$1,415,000</u>	<u>\$1,387,000</u>

For more information on the Educational Service Center's debt, see Notes 12 and 13 of the Basic Financial Statements.

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 - Modified Cash Basis
June 30, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$486,086
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	1,649,346
<i>Total Assets</i>	2,203,388
Liabilities	
Due Within One Year	28,000
Due in more than one year	1,359,000
<i>Total Liabilities</i>	1,387,000
Net Assets	
Invested in Capital Assets, Net of Related Debt	330,302
Restricted for other Purposes	234,639
Unrestricted	251,447
<i>Total Net Assets</i>	\$816,388

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2005

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>
	<u>Cash Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities				
Instruction:				
Regular	\$323,484	\$131,670	\$198,809	\$6,995
Special	1,134,179	1,900,204	239,554	1,005,579
Support Services:				
Pupil	1,021,437	898,866	38,349	(84,222)
Instructional Staff	981,616	137,731	53,774	(790,111)
Board of Education	14,467	0	0	(14,467)
Administration	424,107	1,700	4,260	(418,147)
Fiscal	192,291	40,000	18,484	(133,807)
Business	9,583	0	0	(9,583)
Operation and Maintenance of Plant	98,121	19,093	7,241	(71,787)
Pupil Transportation	607,199	417,646	225	(189,328)
Central	28,089	0	6,000	(22,089)
Operation of Non-Instructional Services	6,476	0	0	(6,476)
Extracurricular Activities	2,171	0	0	(2,171)
Capital Outlay	94,864	0	0	(94,864)
Interest and Fiscal Charges	61,534	0	0	(61,534)
<i>Totals</i>	<u>\$4,999,618</u>	<u>\$3,546,910</u>	<u>\$566,696</u>	<u>(886,012)</u>
General Receipts				
				706,812
				10,832
				48,498
<i>Total General Receipts</i>				<u>766,142</u>
<i>Change in Net Assets</i>				(119,870)
<i>Net Assets Beginning of Year- Restated Note 3</i>				<u>936,258</u>
<i>Net Assets End of Year</i>				<u><u>\$816,388</u></u>

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Assets and Fund Balances-Modified Cash Basis
Governmental Funds
June 30, 2005

	General	Public School Preschool	Title II-A	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$251,447	\$55,929	\$71,189	\$107,521	\$486,086
Fund Balances					
Reserved for Encumbrances	\$86,229	\$4,135	\$1,342	\$158,150	\$249,856
Unreserved, Undesignated, Reported in:					
General Fund	165,218	0	0	0	165,218
Special Revenue Funds	0	51,794	69,847	(50,629)	71,012
<i>Total Fund Balances</i>	<u>\$251,447</u>	<u>\$55,929</u>	<u>\$71,189</u>	<u>\$107,521</u>	<u>\$486,086</u>

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities - Modified Cash Basis
June 30, 2005

Total Governmental Fund Balance \$486,086

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

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

Land	67,956	
Buildings	1,425,000	
Furniture, Fixture, and Equipment	150,429	
Vehicles	526,713	
Accumulated Depreciation	<u>(452,796)</u>	
Total Capital Assets		1,717,302

Capital Leases are not due and payable in the current period and therefore are not reported in the funds. (1,387,000)

Net assets of Governmental Activities \$816,388

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Cash Receipts, Disbursements and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Public School Preschool	Title II-A	Other Governmental Funds	Total Governmental Funds
Receipts					
Intergovernmental	\$945,477	\$86,971	\$0	\$238,933	\$1,271,381
Interest	10,277	0	0	555	10,832
Tuition and Fees	1,024,410	11,024	0	28,945	1,064,379
Rent	18,122	0	0	0	18,122
Extracurricular Activities	0	0	0	3,977	3,977
Gifts and Donations	0	0	0	2,127	2,127
Charges for Services	2,361,464	0	40,233	58,735	2,460,432
Miscellaneous	47,106	0	0	1,392	48,498
<i>Total Receipts</i>	<u>4,406,856</u>	<u>97,995</u>	<u>40,233</u>	<u>334,664</u>	<u>4,879,748</u>
Disbursements					
Current:					
Instruction:					
Regular	99,770	50,391	0	162,269	312,430
Special	1,130,056	0	0	3,170	1,133,226
Support Services:					
Pupil	935,608	30,507	0	50,303	1,016,418
Instructional Staff	876,624	5,617	34,265	50,255	966,761
Board of Education	14,467	0	0	0	14,467
Administration	396,633	0	0	4,480	401,113
Fiscal	171,515	3,498	0	14,503	189,516
Business	9,583	0	0	0	9,583
Operation and Maintenance of Plant	87,559	8,198	0	454	96,211
Pupil Transportation	560,965	255	0	1,383	562,603
Central	17,862	0	0	9,566	27,428
Operation of Non-Instructional Services	5,495	0	0	0	5,495
Extracurricular Activities	2,171	0	0	0	2,171
Capital Outlay	2,649	0	0	303,842	306,491
Debt Service					
Principal	28,000	0	0	0	28,000
Interest and Fiscal Charges	61,534	0	0	0	61,534
<i>Total Disbursements</i>	<u>4,400,491</u>	<u>98,466</u>	<u>34,265</u>	<u>600,225</u>	<u>5,133,447</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>6,365</u>	<u>(471)</u>	<u>5,968</u>	<u>(265,561)</u>	<u>(253,699)</u>
Other Financing Sources (Uses)					
Advances In	5,631	6,019	0	5,140	16,790
Advances Out	(11,159)	(631)	0	(5,000)	(16,790)
Transfers Out	0	0	0	(89)	(89)
Transfers In	0	0	0	89	89
<i>Total Other Financing Sources (Uses)</i>	<u>(5,528)</u>	<u>5,388</u>	<u>0</u>	<u>140</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	837	4,917	5,968	(265,421)	(253,699)
<i>Fund Balances Beginning of Year- Restated Note 3</i>	250,610	51,012	65,221	372,942	739,785
<i>Fund Balances End of Year</i>	<u>\$251,447</u>	<u>\$55,929</u>	<u>\$71,189</u>	<u>\$107,521</u>	<u>\$486,086</u>

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
 Reconciliation of the Statement of Receipts, Disbursements and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis
 For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds (\$253,699)

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	221,807	
Depreciation Expense	(107,690)	
Excess of Capital Outlay under Depreciation Expense		114,117

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	(8,288)
------------------------------------	---------

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.

28,000

Change in Net Assets of Governmental Activities

(\$119,870)

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Receipts, Disbursements, and
Changes in Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Intergovernmental	\$988,347	\$945,477	\$945,477	\$0
Interest	9,709	9,288	9,288	0
Tuition and Fees	1,070,859	1,024,410	1,024,410	0
Rent	18,944	18,122	18,122	0
Charges for Services	2,468,537	2,361,464	2,361,464	0
Miscellaneous	22,869	21,983	21,983	0
<i>Total Receipts</i>	<u>4,579,265</u>	<u>4,380,744</u>	<u>4,380,744</u>	<u>0</u>
Disbursements				
Current:				
Instruction:				
Regular	105,077	105,077	99,934	5,143
Special	1,149,991	1,149,990	1,133,995	15,995
Support Services:				
Pupils	985,147	985,222	957,438	27,784
Instructional Staff	945,519	924,568	880,510	44,058
Board of Education	20,133	20,133	15,758	4,375
Administration	415,892	419,110	405,134	13,976
Fiscal	230,511	195,182	172,899	22,283
Business	11,380	11,380	9,683	1,697
Operation and Maintenance of Plant	91,646	99,132	97,849	1,283
Pupil Transportation	711,612	579,168	574,613	4,555
Central	50,208	48,933	28,536	20,397
Operation of Non-Instructional Services	5,200	5,495	5,495	0
Extracurricular Activities	3,800	3,800	2,593	1,207
Capital Outlay	3,647	3,647	3,647	0
Debt Service:				
Principal	28,000	28,000	28,000	0
Interest	71,317	71,317	70,556	761
<i>Total Disbursements</i>	<u>4,829,080</u>	<u>4,650,154</u>	<u>4,486,640</u>	<u>163,514</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(249,815)</u>	<u>(269,410)</u>	<u>(105,896)</u>	<u>163,514</u>
Other Financing Sources (Uses)				
Refund of Prior Year Disbursements	0	25,123	25,123	0
Advances In	0	5,631	5,631	0
Advances Out	0	(11,159)	(11,159)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>19,595</u>	<u>19,595</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(249,815)</u>	<u>(249,815)</u>	<u>(86,301)</u>	<u>163,514</u>
<i>Fund Balances at Beginning of Year</i>	129,288	129,288	129,288	0
<i>Prior Year Encumbrances Appropriated</i>	<u>120,527</u>	<u>120,527</u>	<u>120,527</u>	<u>0</u>
<i>Fund Balances at End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$163,514</u>	<u>\$163,514</u>

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Receipts, Disbursements, and
Changes in Fund Balance - Budget and Actual - Budget Basis
Public School Preschool Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$107,467	\$102,080	\$86,971	(\$15,109)
Tuition and Fees	0	11,024	11,024	0
<i>Total Receipts</i>	107,467	113,104	97,995	(15,109)
Disbursements				
Current:				
Instruction:				
Regular	87,567	99,213	54,270	44,943
Support Services:				
Pupils	9,639	40,213	30,557	9,656
Instructional Staff	3,301	8,675	5,617	3,058
Fiscal	0	3,498	3,498	0
Operation and Maintenance of Plant	9,612	17,112	8,404	8,708
Pupil Transportation	293	793	255	538
<i>Total Disbursements</i>	110,412	169,504	102,601	66,903
<i>Excess of Receipts Under Disbursements</i>	(2,945)	(56,400)	(4,606)	51,794
Other Financing Sources (Uses)				
Advances In	0	6,019	6,019	0
Advances Out	0	(631)	(631)	0
<i>Total Other Financing Sources (Uses)</i>	0	5,388	5,388	0
<i>Net Change in Fund Balances</i>	(2,945)	(51,012)	782	51,794
<i>Fund Balances at Beginning of Year</i>	39,453	39,453	39,453	0
<i>Prior Year Encumbrances Appropriated</i>	11,559	11,559	11,559	0
<i>Fund Balances at End of Year</i>	\$48,067	\$0	\$51,794	\$51,794

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Receipts, Disbursements, and
Changes in Fund Balance - Budget and Actual - Budget Basis
Title II-A Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Charges for Services		\$40,233	\$40,233	\$0
Disbursements				
Current:				
Support Services:				
Instructional Staff	65,221	105,454	35,607	69,847
<i>Net Change in Fund Balances</i>	(65,221)	(65,221)	4,626	69,847
<i>Fund Balances at Beginning of Year</i>	59,652	59,652	59,652	0
<i>Prior Year Encumbrances Appropriated</i>	5,569	5,569	5,569	0
<i>Fund Balances at End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$69,847</u>	<u>\$69,847</u>

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
June 30, 2005

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$282	<u><u>\$2,309</u></u>
Liabilities		
Current Liabilities		
Undistributed Monies	<u>0</u>	<u><u>\$2,309</u></u>
Net Assets		
Held in Trust for Scholarships	<u><u>\$282</u></u>	

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Changes in Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	<u>Private Purpose Trust</u>
Additions	
Gifts and Donations	\$1,000
Interest	<u>16</u>
<i>Total Additions</i>	<u>1,016</u>
Deductions	
Payments in Accordance with Trust Agreements	<u>2,426</u>
<i>Changes in Net Assets</i>	(1,410)
<i>Net Assets Beginning of Year</i>	<u>1,692</u>
<i>Net Assets End of Year</i>	<u><u>\$282</u></u>

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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 14, 15, and 16 to the basic financial statements.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Educational Service Center accounting policies.

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 statements distinguish between those activities of the Educational Service Center that are governmental in nature and those that are considered business-type activities. The Educational Service Center, however, does not have any activities which are presented as business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The statement of net assets presents the cash balance, capital assets, and debt of the governmental activities of the Educational Service Center at fiscal year end. The statement of activities compares disbursements with program receipts for each function of the Educational Service Center's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the Educational Service Center's general receipts.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Fiduciary funds are reported by type. Capital assets and debt are not reported in the fund financial statements.

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.

Governmental Funds

The Educational Service Center's classified funds are financed primarily from intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. 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.

Public School Preschool Fund - This fund accounts for monies used to assist the Educational Service Center in paying the cost of preschool programs for three and four year old children.

Title II-A Fund - The Title II-A Fund is used to account for grant monies received by the Educational Service Center to be used for the strengthening instruction in science, mathematics, modern foreign languages, english, the arts and computer learning.

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

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Basis of Accounting

The Educational Service Center's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Educational Service Center's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Educational Service Center are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

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 and function level for all funds. The Treasurer has been authorized to allocate appropriations to the object level within all funds.

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, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2005 investments were limited to State Treasury Asset Reserve of Ohio (STAROhio). 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, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2005 were \$10,277, which included \$5,007 assigned from other Educational Service Center funds.

F. 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 which is determined by indexing the current replacement cost back to the year of acquisition) 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 is depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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>
Buildings	25-80 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	10 years

G. Interfund Receivables/Payables

The Educational Service Center reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

H. Long-Term Obligations

Long-term obligations are reported in the government-wide financial statements. The Educational Service Center reported a liability for capital leases which arose from cash transactions.

I. Net Assets

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 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 resources restricted for federal and state grants restricted to cash disbursement for specified purposes. The Educational Service Center's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide statement of net assets reports \$234,639 of restricted net assets, of which none is restricted by enabling legislation.

J. Fund Balance Reserves

The Educational Service Center reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

L. Estimates

The modified cash basis of accounting used by the Educational Service Center requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Note 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

A. Change in Basis of Accounting

For fiscal year 2005, the Educational Service Center ceased to report using generally accepted accounting principles and reported on the modified cash basis described in Note 2C.

B. Restatement of Fund Equity

The implementation of these changes had the following effects on fund equity of the major and nonmajor funds of the Educational Service Center as they were previously reported. The effects on net assets of governmental activities are also presented.

	General	Public School Preschool	Title II-A	Other Governmental	Total Governmental
Fund Balance June 30, 2004	(\$237,020)	\$50,776	\$60,094	\$85,737	(\$40,413)
Eliminate Asset Accruals	(500)	0	0	(21,026)	(21,526)
Eliminate Prepaid Items	(230)	0	0	0	(230)
Eliminate Interfund Receivables (Payables)	(10,624)	0	0	10,624	0
Eliminate Liability Accruals	498,984	236	5,127	297,607	801,954
Adjusted Fund Balance June 30, 2004	<u>\$250,610</u>	<u>\$51,012</u>	<u>\$65,221</u>	<u>\$372,942</u>	<u>\$739,785</u>

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY (continued)

Governmental Activities Net Assets June 30, 2004	\$257,646
Eliminate Government-Wide Financial Statement Adjustments:	
Intergovernmental Receivable	(21,026)
Accounts Receivable	(500)
Prepaid Items	(230)
Capital Assets	(210,227)
Accounts Payable	34,690
Contracts Payable	159,226
Matured Compensated Absences Payable	5,414
Retainage Payable	97,080
Accrued Wages and Benefits Payable	272,865
Intergovernmental Payable	266,031
Deferred Revenue	(4,597)
Deferred Charges	(23,057)
Capital Lease Payable	18,028
Compensated Absences Payable	84,915
Adjusted Governmental Activities Net Assets June 30, 2004	<u>\$936,258</u>

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The statement of receipts, disbursements and changes in fund balance – budget and actual – budget basis presented for the General, Public School Preschool, and Title II-A Funds are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis) and unrecorded cash which represents amounts received but not included on the budget basis operating statement. This amount is included as revenue on the modified cash basis operating statement.

The following table summarizes the adjustments necessary to reconcile the Modified Cash Basis statements to the budgetary basis statements for the General, Public School Preschool, and Title II-A Funds.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

Net Change in Fund Balance

	General	Public School Preschool	Title II-A
Modified Cash Basis	\$837	\$4,917	\$5,968
Unrecorded Cash FY 2004	795	0	0
Unrecorded Cash FY 2005	(1,704)	0	0
Adjustment for Encumbrances	(86,229)	(4,135)	(1,342)
Budget Basis	(\$86,301)	\$782	\$4,626

NOTE 5 – 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, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS

Monies held by the Educational Service Center are classified by State Statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Educational Service Center treasury. Active 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.

Interim monies held by the Educational Service Center 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 or Ohio local governments;
5. Time Certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

6. 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;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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.

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."

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$457,483 of the Educational Service Center's bank balance of \$587,217 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

B. Investments

Credit Risk

As of June 30, 2005 the School District's only investment was in STAROhio. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - CAPITAL ASSETS

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

	Restated Governmental Assets 6/30/2004	Additions	Deletions	Governmental Assets 6/30/2005
Non Depreciable Assets				
Land	\$67,956	\$0	\$0	\$67,956
Construction in Progress	1,209,982	211,627	(1,421,609)	0
Total Non Depreciable Assets	<u>1,277,938</u>	<u>211,627</u>	<u>(1,421,609)</u>	<u>67,956</u>
Depreciable Assets				
Buildings	3,391	1,421,609	0	1,425,000
Furniture, Fixture, Equipment	183,370	10,180	(43,121)	150,429
Vehicles	533,033	0	(6,320)	526,713
Total Depreciable Assets	<u>719,794</u>	<u>1,431,789</u>	<u>(49,441)</u>	<u>2,102,142</u>
Total Assets	<u>1,997,732</u>	<u>1,643,416</u>	<u>(1,471,050)</u>	<u>2,170,098</u>
Less Accumulated Depreciation				
Buildings	(2,854)	(47,726)	0	(50,580)
Furnitures, Fixture, and Equipment	(111,828)	(15,368)	35,149	(92,047)
Vehicles	(271,577)	(44,596)	6,004	(310,169)
Total Accumulated Depreciation	<u>(386,259)</u>	<u>(107,690)</u>	<u>41,153</u>	<u>(452,796)</u>
Total Depreciable Assets	<u>333,535</u>	<u>1,324,099</u>	<u>(8,288)</u>	<u>1,649,346</u>
Total Capital Assets, Net	<u>\$1,611,473</u>	<u>\$1,535,726</u>	<u>(\$1,429,897)</u>	<u>\$1,717,302</u>

*

Depreciation expense was charged to governmental functions as follows:

Regular	\$9,380
Special	953
Pupils	5,019
Instructional Service	14,855
Administration	22,994
Fiscal Services	2,775
Operation & Maintenance of Plant	1,910
Transportation	44,596
Central	4,227
Operation of Non instructional services	981
Total Depreciation	<u>\$107,690</u>

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 8 - 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 2005, the Educational Service Center contracted with Southwestern Ohio Educational Council Property, Fleet, and Liability Program (Note 15) for general liability, property, and fleet insurance.

Coverage provided to the 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 no significant changes in coverage from fiscal year 2004.

B. Workers' Compensation

For fiscal year 2005, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). 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 Educational Service Centers is calculated as one experience and a common premium rate is applied to all Educational Service Centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to Educational Service Centers that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control and actuarial services to the GRP.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 8 - RISK MANAGEMENT (continued)

C. Medical Benefits

For fiscal year 2005, 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 16). 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 9 - 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 43215-3746 or by calling (614)222-5853.

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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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, 2005, 2004, and 2003, were \$112,509, \$107,300, and \$164,271, respectively; 100 percent has been contributed for fiscal year 2005, 2004, 2003.

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.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

For the fiscal year ended June 30, 2005, 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. 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, 2005, 2004, and 2003, were \$168,806, \$235,702, and \$239,698, respectively; 100 percent has been contributed for fiscal year 2005, 2004, and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$8,883 made by the Educational Service Center and \$21,968 made by the plan members.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - 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.

All 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, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$12,985 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, School District paid \$52,701 to fund health care benefits, including the surcharge.

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, 2005, were \$178,221,113 and the target level was \$367.3 million. At June 30, 2005 SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 11 - EMPLOYEE BENEFITS

A. Dental Care

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

B. Life Insurance

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

NOTE 12 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In prior years, the Educational Service Center entered into a lease-purchase agreement for the construction of a new building. 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. The project was completed during fiscal year 2005. Amounts were reimbursed to the Educational Service Center for expenditures made on work completed and at June 30, 2005, there are no remaining funds on deposit with the trustee. 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”. Principal payments made during fiscal year 2005 totaled \$28,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$1,387,000.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Building	<u>\$1,254,866</u>	<u>\$41,829</u>	<u>\$1,213,037</u>

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 - 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, 2005.

Fiscal Year Ending June 30,	Long-Term Obligations
2006	\$85,255
2007	85,450
2008	85,549
2009	85,567
2010	86,516
2011-2015	432,643
2016-2020	437,808
2021-2025	444,205
2026-2030	451,860
2031-2033	182,663
Total minimum lease payments	2,377,516
Less: amount representing interest and charges	(990,516)
Present value of minimum lease payments	\$1,387,000

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2005 were as follows:

	Amount Outstanding 6/30/04	Additions	Deductions	Amount Outstanding 6/30/05	Amounts Due in One Year
Capital Lease	\$1,415,000	\$0	\$28,000	\$1,387,000	\$28,000

The capital lease will be paid from the General Fund.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 14 - 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 \$9,134 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3607 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 2005, the Preble County Educational Service Center paid \$41,145 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 45377.

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.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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 2005, the Preble County Educational Service Center paid \$1,275 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 15 - 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.

NOTE 16 - 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.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 17 INTERFUND RECEIVABLES/PAYABLES

At June 30, 2005, the General Fund had unpaid interfund cash advances, in the amount of \$6,019 and \$5,140, for short term loans made to the Public School Preschool Fund and to other governmental funds, respectively. The loans are expected to be received within one year.

NOTE 18 – TRANSFERS

Other governmental funds had transfers out to other governmental funds of \$89 during fiscal year 2005. The transfers were done to properly account for donations received by the Educational Service Center.

NOTE 19 - 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, 2005.

B. Litigation

This Educational Service Center is not currently a party to any legal proceedings.

NOTE 20 – COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Educational Service Center prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The Educational Service Center can be fined and various other administrative remedies may be taken against the Educational Service Center.

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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, 2005, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated April 26, 2006, in which we noted the Educational Service Center prepares its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America. 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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the Educational Service Center's management dated April 26, 2006, we reported another matter related to noncompliance we deemed immaterial.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

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

PREBLE COUNTY EDUCATIONAL SERVICE CENTER
PREBLE COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005

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

FINDING NUMBER 2005-001

Material Noncompliance

Ohio Admin. Code, Section 117-2-03 (B), requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Educational Service Center prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosure that, while material, cannot be determined at this time. The Educational Service Center can be fined and various other administrative remedies may be taken against the Educational Service Center, as such, we recommend the Educational Service Center prepare its annual financial report in accordance with generally accepted accounting principles.



**Auditor of State
Betty Montgomery**

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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**