



Mary Taylor, CPA  
Auditor of State



**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### 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, 2007, 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 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, 2007, and the respective changes in modified cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

Preble County Educational Service Center  
Preble County  
Independent Accountants' Report  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2008, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis and the respective budgetary comparison for the General and Public School Preschool Fund are not a required part of the basic financial statements but are 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.



**Mary Taylor, CPA**  
Auditor of State

April 15, 2008

## **Preble County Educational Service Center**

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

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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, 2007. 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 basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2007 are as follows:

In total, net assets decreased \$162,483, which represents a 17 percent decrease from fiscal year 2006.

General receipts accounted for \$787,682 or 14.47 percent of total receipts. Program specific receipts in the form of charges for services and operating grants, capital grants and contributions accounted for \$4,657,252 or 85.53 percent of total receipts of \$5,444,934.

The Educational Service Center had \$5,607,417 in disbursements; \$4,657,252 of these disbursements were offset by program specific charges for services, grants or contributions.

Among major funds, the General Fund had \$4,822,225 in receipts and \$4,847,560 in disbursements.

### **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 basic 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, 2007

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### *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 receipts (such as accounts receivable) and certain liabilities and their related disbursements (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 fiscal year 2007, 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 fiscal 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 and Public School Preschool Funds.

## **Preble County Educational Service Center**

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

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### *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 fiscal year 2006 compared to fiscal year 2007:

Table 1  
Net Assets

	<u>2006</u>	<u>2007</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$558,401	\$466,704	(\$91,697)
Capital Assets	1,756,176	1,656,390	(99,786)
<i>Total Assets</i>	<u>2,314,577</u>	<u>2,123,094</u>	<u>(191,483)</u>
<b>Liabilities</b>			
Long-Term Liabilities	1,359,000	1,330,000	(29,000)
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	397,176	326,390	(70,786)
Restricted	276,040	222,940	(53,100)
Unrestricted	282,361	243,764	(38,597)
<i>Total Net Assets</i>	<u>\$955,577</u>	<u>\$793,094</u>	<u>(\$162,483)</u>

## Preble County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

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Total assets decreased by \$191,483. The decrease in current and other assets is due to a decrease in cash and cash equivalents that was caused by the Educational Service Center's disbursements exceeding receipts during fiscal year 2007. The decrease in capital assets is the result of current year depreciation exceeding current year additions. Long-term liabilities decreased by \$29,000 due to the payment of the capital lease. The decrease in net assets of \$162,483 was due to pay increases and employee insurance premium increases and depreciation expenses on capital assets exceeding additions.

Table 2 shows the changes in net assets for fiscal year 2006 compared to fiscal year 2007.

Table 2  
Changes in Net Assets

	2006	2007	Change
<b>Receipts</b>			
Program Receipts:			
Charges for Services	\$3,867,821	\$3,920,904	\$53,083
Operating Grants and Contributions	844,365	732,223	(112,142)
Capital Grants and Contributions	0	4,125	4,125
<i>Total Program Receipts</i>	<u>4,712,186</u>	<u>4,657,252</u>	<u>(54,934)</u>
General Receipts			
Grants and Entitlements	714,541	705,241	(9,300)
Investment Earnings	26,574	37,194	10,620
Gifts and Donations	0	350	350
Miscellaneous	20,263	44,897	24,634
<i>Total General Receipts</i>	<u>761,378</u>	<u>787,682</u>	<u>26,304</u>
<i>Total Receipts</i>	<u>5,473,564</u>	<u>5,444,934</u>	<u>(28,630)</u>
<b>Program Disbursements</b>			
Instruction:			
Regular	576,528	518,203	(58,325)
Special	1,195,413	1,252,635	57,222
Support Services:			
Pupils	1,077,065	1,057,774	(19,291)
Instructional Staff	1,091,838	1,181,505	89,667
Board of Education	18,897	24,002	5,105
Administration	413,020	474,787	61,767
Fiscal	214,847	189,206	(25,641)
Business	11,151	11,108	(43)
Operation and Maintenance of Plant	117,324	103,210	(14,114)
Pupil Transportation	529,845	686,650	156,805
Central	14,576	27,306	12,730
Operation of Non-Instructional Services	6,723	7,191	468
Extracurricular Activities	2,708	2,508	(200)
Interest and Fiscal Charges	64,440	71,332	6,892
<i>Total Disbursements</i>	<u>5,334,375</u>	<u>5,607,417</u>	<u>\$273,042</u>
<i>Increase (Decrease) in Net Assets</i>	<u>139,189</u>	<u>(162,483)</u>	
<i>Net Assets at Beginning of Year</i>	<u>816,388</u>	<u>955,577</u>	
<i>Net Assets at End of Year</i>	<u>\$955,577</u>	<u>\$793,094</u>	

## **Preble County Educational Service Center**

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

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### **Governmental Activities**

Overall, receipts decreased by \$28,630 a less than one percent decrease over fiscal year 2006. Disbursements increased by 5.12 percent or \$273,042 over fiscal year 2006. This increase along with the decrease in receipts resulted in net assets decreasing by \$162,483 during fiscal year 2007.

The significant decrease in operating grants and contributions and regular instruction was due to a decrease in the 21<sup>st</sup> Century Grants. The reason for the decrease is the timing of when receipts are received and disbursements are spent.

Special instruction increased 4.79 percent over fiscal year 2006. The increase was due to salary and insurance premium increases, and additional staff receiving health insurance benefits.

Instructional staff increased 8.21 percent over fiscal year 2006. The increase was due to salary and insurance premium increases, and additional staff receiving health insurance benefits.

Administration disbursements increased by 14.95 percent over fiscal year 2006. The increase was the result of salary and insurance premium increases and the severance payment for the Superintendent.

Pupil transportation increased by 29.59 percent. The increase was the result of salary and insurance premium increases, additional staff receiving health insurance benefits, additional bus aides being hired and the increase for the cost of gas and vehicle maintenance.

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.

## Preble County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

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Table 3  
Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2007	Net Cost of Services 2007
<b>Instruction:</b>				
Regular	\$576,528	\$77,858	\$518,203	(\$22,278)
Special	1,195,413	1,125,088	1,252,635	1,093,863
<b>Support Services:</b>				
Pupils	1,077,065	(190,822)	1,057,774	(116,069)
Instructional Staff	1,091,838	(819,266)	1,181,505	(903,372)
Board of Education	18,897	(18,897)	24,002	(24,002)
Administration	413,020	(387,990)	474,787	(454,151)
Fiscal	214,847	(201,266)	189,206	(162,892)
Business	11,151	(1,525)	11,108	(942)
Operation and Maintenance of Plant	117,324	(85,687)	103,210	(70,898)
Pupil Transportation	529,845	(37,235)	686,650	(187,087)
Central	14,576	(8,576)	27,306	(21,306)
Operation of Non-Instructional Services	6,723	(6,723)	7,191	(7,191)
Extracurricular Activities	2,708	(2,708)	2,508	(2,508)
Interest and Fiscal Charges	64,440	(64,440)	71,332	(71,332)
<i>Total Disbursements</i>	<u><u>\$5,334,375</u></u>	<u><u>(\$622,189)</u></u>	<u><u>\$5,607,417</u></u>	<u><u>(\$950,165)</u></u>

### The Educational Service Center's Funds

The Educational Service Center's major funds are accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$5,444,934 and total disbursements of \$5,536,631. The net change in fund balance for the fiscal year was (\$38,597) in the General Fund and (\$4,315) in the Public School Preschool Fund. The slight changes in fund balances for these funds were due to close budgetary monitoring.

### Capital Assets

At the end of fiscal year 2007, the Educational Service Center had \$1,656,390 invested in land, buildings, furniture, fixtures, and equipment, and vehicles.

Table 4 shows fiscal year 2006 balances compared to fiscal year 2007.

## **Preble County Educational Service Center**

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

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

	<u>2006</u>	<u>2007</u>	<u>Change</u>
Land	\$67,956	\$67,956	\$0
Buildings	1,326,644	1,279,065	(47,579)
Furniture, Fixture and Equipment	66,007	66,526	519
Vehicles	295,569	242,843	(52,726)
<i>Totals</i>	<u>\$1,756,176</u>	<u>\$1,656,390</u>	<u>(\$99,786)</u>

Overall capital assets decreased \$99,786 from fiscal year 2006 to fiscal year 2007. The decrease was due to the current year depreciation expense of \$117,649 and loss on disposal of capital assets of \$3,808 exceeding current year additions of \$21,671.

For more information on capital assets, see Note 5 of the Basic Financial Statements.

### **Debt Administration**

At June 30, 2007, 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. The change from fiscal years 2006 to 2007 was due to \$29,000 of the lease being paid off during the fiscal year.

Table 5  
Outstanding Debt at June 30,

	<u>2006</u>	<u>2007</u>	<u>Change</u>
Capital Lease	<u>\$1,359,000</u>	<u>\$1,330,000</u>	<u>(\$29,000)</u>

For more information on the Educational Service Center's debt, see Notes 10 and 11 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](mailto:pbbo_tf@swoca.net).

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**Preble County Educational Service Center**  
 Statement of Net Assets - Modified Cash Basis  
 June 30, 2007

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$466,704
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	<u>1,588,434</u>
<i>Total Assets</i>	<u>2,123,094</u>
<b>Liabilities</b>	
Due Within One Year	30,000
Due In More Than One Year	<u>1,300,000</u>
<i>Total Liabilities</i>	<u>1,330,000</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	326,390
Restricted for Other Purposes	61,569
Restricted for Preble County Professional Development Center	25,371
Restricted for Public School Preschool	71,791
Restricted for Title II - A	32,473
Restricted for Miscellaneous Federal Grants	31,736
Unrestricted	<u>243,764</u>
<i>Total Net Assets</i>	<u>\$793,094</u>

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, 2007

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	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities</b>					
Instruction:					
Regular	\$518,203	\$165,369	\$330,556	\$0	(\$22,278)
Special	1,252,635	2,100,812	245,686	0	1,093,863
Support Services:					
Pupils	1,057,774	889,076	52,629	0	(116,069)
Instructional Staff	1,181,505	220,393	57,740	0	(903,372)
Board of Education	24,002	0	0	0	(24,002)
Administration	474,787	12,412	8,224	0	(454,151)
Fiscal	189,206	4,096	22,218	0	(162,892)
Business	11,108	10,166	0	0	(942)
Operation and Maintenance of Plant	103,210	25,550	6,762	0	(70,898)
Pupil Transportation	686,650	493,030	2,408	4,125	(187,087)
Central	27,306	0	6,000	0	(21,306)
Operation of Non-Instructional Services	7,191	0	0	0	(7,191)
Extracurricular Activities	2,508	0	0	0	(2,508)
Interest and Fiscal Charges	71,332	0	0	0	(71,332)
<i>Totals</i>	<u>\$5,607,417</u>	<u>\$3,920,904</u>	<u>\$732,223</u>	<u>\$4,125</u>	<u>(950,165)</u>
<b>General Receipts</b>					
Grants and Entitlements not Restricted					
to Specific Programs					705,241
Investment Earnings					37,194
Gifts and Donations					350
Miscellaneous					44,897
<i>Total General Receipts</i>					<u>787,682</u>
<i>Change in Net Assets</i>					<u>(162,483)</u>
<i>Net Assets at Beginning of Year</i>					<u>955,577</u>
<i>Net Assets at End of Year</i>					<u>\$793,094</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, 2007

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	General	Public School Preschool	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	<u>\$243,764</u>	<u>\$71,791</u>	<u>\$151,149</u>	<u>\$466,704</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	\$222,724	\$4,337	\$138,438	\$365,499
Unreserved, Undesignated, Reported in:				
General Fund	21,040	0	0	21,040
Special Revenue Funds	<u>0</u>	<u>67,454</u>	<u>12,711</u>	<u>80,165</u>
<i>Total Fund Balances</i>	<u>\$243,764</u>	<u>\$71,791</u>	<u>\$151,149</u>	<u>\$466,704</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, 2007

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**Total Governmental Fund Balance** \$466,704

*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	1,421,609
Furniture, Fixtures, and Equipment	174,096
Vehicles	639,343
Accumulated Depreciation	<u>(646,614)</u>
 Total Capital Assets	1,656,390

Capital Leases are not due and payable in the current period and therefore are not reported in the funds. (1,330,000)

*Net assets of Governmental Activities* \$793,094

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, 2007

	General	Public School Preschool	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Intergovernmental	\$955,052	\$96,606	\$389,931	\$1,441,589
Interest	37,194	0	0	37,194
Tuition and Fees	1,206,412	16,432	39,745	1,262,589
Rent	23,922	0	0	23,922
Extracurricular Activities	0	0	139	139
Gifts and Donations	0	0	350	350
Charges for Services	2,555,935	0	78,319	2,634,254
Miscellaneous	43,710	0	1,187	44,897
<i>Total Receipts</i>	<i>4,822,225</i>	<i>113,038</i>	<i>509,671</i>	<i>5,444,934</i>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	109,419	46,210	351,528	507,157
Special	1,250,237	0	1,805	1,252,042
Support Services:				
Pupils	965,564	54,935	31,840	1,052,339
Instructional Staff	1,030,939	0	138,275	1,169,214
Board of Education	24,002	0	0	24,002
Administration	449,255	0	12,976	462,231
Fiscal	165,146	7,192	18,859	191,197
Business	11,108	0	0	11,108
Operation and Maintenance of Plant	92,044	8,573	675	101,292
Pupil Transportation	630,652	443	2,829	633,924
Central	11,079	0	12,000	23,079
Operation of Non-Instructional Services	5,275	0	931	6,206
Extracurricular Activities	2,508	0	0	2,508
Debt Service :				
Principal	29,000	0	0	29,000
Interest and Fiscal Charges	71,332	0	0	71,332
<i>Total Disbursements</i>	<i>4,847,560</i>	<i>117,353</i>	<i>571,718</i>	<i>5,536,631</i>
<i>Excess of Receipts Under Disbursements</i>	<i>(25,335)</i>	<i>(4,315)</i>	<i>(62,047)</i>	<i>(91,697)</i>
<b>Other Financing Sources (Uses)</b>				
Advances In	17,045	0	30,307	47,352
Advances Out	(30,307)	0	(17,045)	(47,352)
<i>Total Other Financing Sources (Uses)</i>	<i>(13,262)</i>	<i>0</i>	<i>13,262</i>	<i>0</i>
<i>Net Change in Fund Balances</i>	<i>(38,597)</i>	<i>(4,315)</i>	<i>(48,785)</i>	<i>(91,697)</i>
<i>Fund Balances at Beginning of Year</i>	<i>282,361</i>	<i>76,106</i>	<i>199,934</i>	<i>558,401</i>
<i>Fund Balances at End of Year</i>	<i>\$243,764</i>	<i>\$71,791</i>	<i>\$151,149</i>	<i>\$466,704</i>

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**

Reconciliation of the Statement of Cash 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, 2007

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**Net Change in Fund Balances - Total Governmental Funds** (\$91,697)

*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	21,671
Depreciation Expense	(117,649)
Excess of Capital Outlay under Depreciation Expense	(95,978)

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

Loss on Disposal of Capital Assets	(3,808)
------------------------------------	---------

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.

29,000
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*Change in Net Assets of Governmental Activities*

<u><u>(\$162,483)</u></u>
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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, 2007

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	Private		
	<u>Purpose Trust</u>		<u>Agency</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$938		<u>\$2,034</u>
<b>Liabilities</b>			
Undistributed Monies	0		<u>\$2,034</u>
<b>Net Assets</b>			
Held in Trust for Scholarships	<u><u>\$938</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, 2007

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	<u>Private</u> <u>Purpose Trust</u>
<b>Additions</b>	
Gifts and Donations	\$1,000
Interest	<u>108</u>
<i>Total Additions</i>	1,108
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	<u>1,500</u>
<i>Changes in Net Assets</i>	(392)
<i>Net Assets at Beginning of Year</i>	<u>1,330</u>
<i>Net Assets at End of Year</i>	\$938

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, 2007

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### **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 ensure that the financial statements 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 Purchasing Council Property, Fleet and Liability Program, and the Preble County Council of Government Consortium. Information about these organizations is presented in Notes 12, 13, and 14 to the basic financial statements.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **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. Generally accepted accounting principles (GAAP) 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. For governmental activities 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's 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 Educational Service Center, except for fiduciary funds. The government-wide financial statements usually 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, 2007

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### **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.

#### **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 classifies funds 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* – The Public School Preschool 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.

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, 2007

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### *Fiduciary Funds*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's only trust fund is a private purpose trust fund 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 activities on behalf of student work programs and 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. 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 2007 investments were limited to the 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, 2007.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2007 were \$37,194, which included \$15,568 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash and cash equivalents.

#### **E. Capital Assets**

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. General capital assets generally result from disbursements 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 are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	25-80 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	10 years

#### **F. 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.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **G. 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.

#### **H. 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 \$222,940 of restricted net assets, of which none is restricted by enabling legislation.

#### **I. 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.

#### **J. Internal Activity**

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities.

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

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **K. Employer Contributions to Cost-Sharing Pension Plans**

The Educational Service Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

#### **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 - 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 districts 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, 2007

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### **NOTE 4 - 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 Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the Educational Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
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, 2007

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### **NOTE 4 - DEPOSITS AND INVESTMENTS** (continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
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. Investments may only be made through specified dealers and institutions.

#### **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 fiscal year-end, \$405,319 of the Educational Service Center's bank balance of \$605,812 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution.

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**

As of June 30, 2007 the Educational Service Center only had investments in STAROhio.

	Fair Value	Maturity
STAROhio	<u>\$18,846</u>	Average 39 Days

#### *Interest Rate Risk*

The Educational Service Center's investment policy follows State statute, which requires that an investment mature within five years of the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 4 - DEPOSITS AND INVESTMENTS** (continued)

#### *Credit Risk*

STAROhio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that addresses credit risk.

### **NOTE 5 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2007 was as follows:

	Governmental Assets 6/30/2006	Additions	Deletions	Governmental Assets 6/30/2007
<b>Capital Assets Not Being Depreciated:</b>				
Land	<u>\$67,956</u>	<u>\$0</u>	<u>\$0</u>	<u>\$67,956</u>
<b>Capital Assets Being Depreciated:</b>				
Buildings	1,421,609	0	0	1,421,609
Furniture, Fixtures, and Equipment	164,602	21,671	(12,177)	174,096
Vehicles	639,343	0	0	639,343
Total Capital Assets Being Depreciated	<u>2,225,554</u>	<u>21,671</u>	<u>(12,177)</u>	<u>2,235,048</u>
Less Accumulated Depreciation				
Buildings	(94,965)	(47,579)	0	(142,544)
Furniture, Fixtures, and Equipment	(98,595)	(17,344)	8,369	(107,570)
Vehicles	(343,774)	(52,726)	0	(396,500)
Total Accumulated Depreciation	<u>(537,334)</u>	<u>(117,649)</u> *	<u>8,369</u>	<u>(646,614)</u>
Total Capital Assets Being Depreciated, Net	<u>1,688,220</u>	<u>(95,978)</u>	<u>(3,808)</u>	<u>1,588,434</u>
Total Capital Assets, Net	<u>\$1,756,176</u>	<u>(\$95,978)</u>	<u>(\$3,808)</u>	<u>\$1,656,390</u>

\* Depreciation expense was charged to governmental functions as follows:

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 5 - CAPITAL ASSETS** (continued)

Instruction:	
Regular	\$11,046
Special	593
Support Services:	
Pupils	5,116
Instructional Staff	13,698
Administration	24,096
Fiscal	3,244
Operation and Maintenance of Plant	1,918
Pupil Transportation	52,726
Central	4,227
Operation of Non-Instructional Services	985
Total Depreciation	<u>\$117,649</u>

### **NOTE 6 - 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 2007, the Educational Service Center contracted with Southwestern Ohio Educational Purchasing Council Property, Fleet, and Liability Program (Note 13) for general liability, property, and fleet insurance.

Coverage provided to the Educational Service Center 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 fiscal years. There have been no significant changes in coverage from the last fiscal year.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 6 - RISK MANAGEMENT** (continued)

#### **B. Workers' Compensation**

For fiscal year 2007, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants 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 participants that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control and actuarial services to the GRP.

#### **C. Medical Benefits**

For fiscal year 2007, the Educational Service Center participated in the Preble County Council of Government Consortium (the Consortium), a shared risk pool consisting of five local School Districts and an Educational Service Center (See Note 14). 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 7 - DEFINED BENEFIT PENSION PLANS**

#### **A. School Employee Retirement System**

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling toll-free (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 7 - DEFINED BENEFIT PENSION PLANS** (continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 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, 2007, 2006 and 2005 were \$121,471, \$117,569, and \$112,509, respectively; 100 percent has been contributed for each fiscal year.

### **B. State Teachers Retirement System**

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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 7 - DEFINED BENEFIT PENSION PLANS** (continued)

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent 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, 2007, 2006, and 2005, were \$262,942 \$258,283, and \$168,806, respectively; 100 percent has been contributed for each fiscal year. Contributions to the DC and Combined Plans for fiscal year 2007 were \$9,102 made by the Educational Service Center and \$23,124 made by the plan members.

### **C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2007, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

### **NOTE 8 - POSTEMPLOYMENT BENEFITS**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated 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 funded on a pay-as-you-go basis.

All STRS Ohio 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 cost 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, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$20,226 for fiscal year 2007.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 8 - POSTEMPLOYMENT BENEFITS** (continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 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 health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$54,514.

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 projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

### **NOTE 9 - 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/LINA Healthcare.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 10 - 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. Amounts are reimbursed to the Educational Service Center for expenditures made on work completed. The Educational Service Center will make semi-annual lease payments to National City Bank. Interest rates include both fixed and variable portions. The variable interest rates are adjusted monthly based on the TBMA Index.

The agreement is recorded on the statement of net assets as "Due Within One Year" and "Due In More Than One Year." Principal payments made during fiscal year 2007 totaled \$29,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$1,330,000.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Building	\$1,254,866	\$125,487	\$1,129,379

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, 2007.

Fiscal Year Ending June 30,	Long-Term Obligations
2008	\$100,527
2009	100,221
2010	100,790
2011	100,274
2012	99,632
2013-2017	495,474
2018-2022	489,915
2023-2027	483,351
2028-2032	471,304
Total minimum lease payments	2,441,488
Less: amount representing interest and charges	(1,111,488)
Present value of minimum lease payments	<u><u>\$1,330,000</u></u>

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 11 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2007 were as follows:

	Amount		Amount		Amount Due in One Year
	Outstanding 6/30/2006	Additions	Deductions	Outstanding 6/30/2007	
Capital Lease	\$1,359,000	\$0	\$29,000	\$1,330,000	\$30,000

The capital lease will be paid from the General Fund.

### **NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS**

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

The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among members. The governing board of SWOCA consists of one representative from each entity plus one representative from the fiscal agent. The Educational Service Center paid SWOCA \$6,326 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 SOEPC 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 2007, the Preble County Educational Service Center paid \$42,638 in fees to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Drive, Suite 208, Vandalia, Ohio 45377.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS** (continued)

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2007, the Preble County Educational Service Center paid \$3,880 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 13 - 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 participant serves on the general assembly. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

***Southwestern Ohio Educational Purchasing Council Property, Fleet, and Liability Program*** - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing 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 participants.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **NOTE 14 - SHARED RISK POOL**

***Preble County Council of Governments Consortium*** - The Preble County Council of Government 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 participant. Premiums are paid on a monthly basis to the Consortium and their designated insurance company. The Consortium is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Consortium may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Consortium. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

### **NOTE 15 - 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, 2007.

#### **B. Litigation**

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

### **NOTE 16 - 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.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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**NOTE 17 – INTERFUND ACTIVITY**

At June 30, 2007, the General Fund had interfund cash advances in the amount of \$30,307 for short-term loans made to Other Governmental Funds. These are expected to be repaid within one year. The General fund also received repayments from Other Governmental Funds of \$17,045 for short-term loans made during fiscal year 2006.

**Preble County Educational Service Center**  
 Schedule of Receipts, Disbursements and  
 Changes in Fund Balance - Budget and Actual - Budget Basis  
 General Fund  
 For the Fiscal Year Ended June 30, 2007

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	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Receipts</b>				
Intergovernmental			\$955,052	
Interest			33,765	
Tuition and Fees			1,206,412	
Rent			23,922	
Charges for Services			2,555,935	
Miscellaneous			38,220	
<i>Total Receipts</i>			<u>4,813,306</u>	
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	107,383	110,920	110,920	0
Special	1,222,049	1,259,764	1,259,764	0
Support Services:				
Pupils	978,418	996,296	996,296	0
Instructional Staff	1,032,111	1,099,720	1,099,720	0
Board of Education	28,053	26,917	26,917	0
Administration	421,443	463,156	463,156	0
Fiscal	222,541	180,163	180,163	0
Business	12,411	11,938	11,938	0
Operation and Maintenance of Plant	118,826	101,000	101,000	0
Pupil Transportation	666,199	692,003	692,003	0
Central	37,430	20,409	20,409	0
Operation of Non-Instructional Services	5,500	5,275	5,275	0
Extracurricular Activities	3,450	2,508	2,508	0
Debt Service:				
Principal	21,912	29,000	29,000	0
Interest and Fiscal Charges	68,088	68,088	68,088	0
<i>Total Disbursements</i>	<u>4,945,814</u>	<u>5,067,157</u>	<u>5,067,157</u>	<u>0</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(4,945,814)</u>	<u>(5,067,157)</u>	<u>(253,851)</u>	<u>4,813,306</u>
<b>Other Financing Sources (Uses)</b>				
Advances In			17,245	
Advances Out	0	(30,507)	(30,507)	0
Other Financing Uses	0	(12,232)	0	12,232
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>(42,739)</u>	<u>(13,262)</u>	<u>12,232</u>
<i>Net Change in Fund Balance</i>			(267,113)	
<i>Fund Balance at Beginning of Year</i>			54,241	
<i>Prior Year Encumbrances Appropriated</i>			<u>225,104</u>	
<i>Fund Balance at End of Year</i>			<u>\$12,232</u>	

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
 Schedule of Receipts, Disbursements and  
 Changes in Fund Balance - Budget and Actual - Budget Basis  
 Public School Preschool Fund  
 For the Fiscal Year Ended June 30, 2007

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	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Receipts</b>				
Intergovernmental			\$96,606	
Tuition and Fees			<u>16,432</u>	
<i>Total Receipts</i>			<u>113,038</u>	
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	101,507	106,464	46,360	60,104
Support Services:				
Pupils	56,587	61,466	59,072	2,394
Instructional Staff	2,898	2,898	0	2,898
Fiscal	3,596	7,192	7,192	0
Operation and Maintenance of Plant	7,490	10,490	8,623	1,867
Pupil Transportation	<u>634</u>	<u>634</u>	<u>443</u>	<u>191</u>
<i>Total Disbursements</i>	<u>172,712</u>	<u>189,144</u>	<u>121,690</u>	<u>67,454</u>
<i>Net Change in Fund Balance</i>			(8,652)	
<i>Fund Balance at Beginning of Year</i>			72,086	
<i>Prior Year Encumbrances Appropriated</i>			<u>4,020</u>	
<i>Fund Balances at End of Year</i>			<u><u>\$67,454</u></u>	

See Accompanying Notes to the Basic Financial Statements  
 See Accountants' Compilation Report

**Preble County Educational Service Center**  
Notes to the Supplementary Budgetary Information  
For the Fiscal Year Ended June 30, 2007

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**NOTE 1 - BUDGETARY PROCESS**

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

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 Board does not approve estimated resources. 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, 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.

**NOTE 2 - 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 schedule of receipts, disbursements and changes in fund balance – budget and actual – budget basis presented for the General and Public School Preschool 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 and spent but not included on the budget basis operating statement. These amounts are included as receipts and disbursements 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 and Public School Preschool Funds.

**Preble County Educational Service Center**  
Notes to the Supplementary Budgetary Information  
For the Fiscal Year Ended June 30, 2007

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**NOTE 2 - BUDGETARY BASIS OF ACCOUNTING** (continued)

Net Change in Fund Balance

	General	Public School Preschool
Modified Cash Basis	(\$38,597)	(\$4,315)
Unrecorded Cash FY 2007 - Revenue	(8,919)	0
Unrecorded Cash FY 2006 - Expense	3,016	0
Unrecorded Cash FY 2007 - Expense	111	0
Adjustment for Encumbrances	(222,724)	(4,337)
Budget Basis	<u><u>(\$267,113)</u></u>	<u><u>(\$8,652)</u></u>



# Mary Taylor, CPA

## Auditor of State

### 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, 2006, 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 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, 2006, and the respective changes in modified cash financial position and the respective budgetary comparisons for the General Fund, Public Preschool Fund, and Title II-A Fund, thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

Preble County Educational Service Center  
Preble County  
Independent Accountants' Report  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2008, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information 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.



**Mary Taylor, CPA**  
Auditor of State

April 15, 2008

## **Preble County Educational Service Center**

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

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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, 2006. 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 basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

### **Financial Highlights**

Key financial highlights for 2006 are as follows:

In total, net assets increased \$139,189, which represents a 17.05 percent increase from fiscal year 2005.

General receipts accounted for \$761,378 or 13.91 percent of total receipts. Program specific receipts in the form of charges for services and operating grants and contributions accounted for \$4,712,186 or 86.09 percent of total receipts of \$5,473,564.

The Educational Service Center had \$5,334,375 in disbursements; \$4,712,186 of these disbursements were offset by program specific charges for services, grants or contributions.

Among major funds, the General Fund had \$4,707,010 in receipts and \$4,673,108 in disbursements.

### **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 basic 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, 2006

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### *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 receipts (such as accounts receivable) and certain liabilities and their related disbursements (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 fiscal year 2006, 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 fiscal 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, 2006

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### *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 fiscal year 2005 compared to fiscal year 2006:

Table 1  
Net Assets

	<u>2005</u>	<u>2006</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$486,086	\$558,401	\$72,315
Capital Assets	1,717,302	1,756,176	38,874
<i>Total Assets</i>	<u>2,203,388</u>	<u>2,314,577</u>	<u>111,189</u>
<b>Liabilities</b>			
Long-Term Liabilities	1,387,000	1,359,000	(28,000)
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	330,302	397,176	66,874
Restricted	234,639	276,040	41,401
Unrestricted	251,447	282,361	30,914
<i>Total Net Assets</i>	<u>\$816,388</u>	<u>\$955,577</u>	<u>\$139,189</u>

## Preble County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

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Total net assets increased by \$139,189 from fiscal year 2005, of which invested in capital assets, net of related debt increased by \$66,874. Current assets, which consists of cash and cash equivalents increased by \$72,315. The increase in total net assets was primarily due to the purchase of two busses and cash flow improving after initial debt to acquire the land and the building. The increase in restricted net assets was primarily due to more grants being received during fiscal year 2006.

Table 2 shows the changes in net assets for fiscal year 2005 compared to fiscal year 2006.

Table 2  
Changes in Net Assets

	2005	2006	Change
<b>Receipts</b>			
Program Receipts:			
Charges for Services	\$3,546,910	\$3,867,821	\$320,911
Operating Grants and Contributions	566,696	844,365	277,669
<i>Total Program Receipts</i>	<u>4,113,606</u>	<u>4,712,186</u>	<u>598,580</u>
General Receipts			
Grants and Entitlements	706,812	714,541	7,729
Investment Earnings	10,832	26,574	15,742
Miscellaneous	48,498	20,263	(28,235)
<i>Total General Receipts</i>	<u>766,142</u>	<u>761,378</u>	<u>(4,764)</u>
<i>Total Receipts</i>	<u>4,879,748</u>	<u>5,473,564</u>	<u>593,816</u>
<b>Program Disbursements</b>			
Instruction:			
Regular	323,484	576,528	253,044
Special	1,134,179	1,195,413	61,234
Support Services:			
Pupils	1,021,437	1,077,065	55,628
Instructional Staff	981,616	1,091,838	110,222
Board of Education	14,467	18,897	4,430
Administration	424,107	413,020	(11,087)
Fiscal	192,291	214,847	22,556
Business	9,583	11,151	1,568
Operation and Maintenance of Plant	98,121	117,324	19,203
Pupil Transportation	607,199	529,845	(77,354)
Central	28,089	14,576	(13,513)
Operation of Non-Instructional Services	6,476	6,723	247
Extracurricular Activities	2,171	2,708	537
Capital Outlay	94,864	0	(94,864)
Interest and Fiscal Charges	61,534	64,440	2,906
<i>Total Disbursements</i>	<u>4,999,618</u>	<u>5,334,375</u>	<u>\$334,757</u>
<i>Increase (Decrease) in Net Assets</i>	<u>(119,870)</u>	<u>139,189</u>	
<i>Net Assets at Beginning of Year</i>	<u>936,258</u>	<u>816,388</u>	
<i>Net Assets at End of Year</i>	<u>\$816,388</u>	<u>\$955,577</u>	

## **Preble County Educational Service Center**

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

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### **Governmental Activities**

The significant decrease in capital outlay disbursements was due to the completion of the building during fiscal year 2005.

The significant increase in operating grants and contributions, regular instruction, and instructional staff was due to an increase in the 21<sup>st</sup> Century Grant.

The significant increase in charges for services was primarily due to an increase in charges to other School Districts.

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**  
**Governmental Activities**

	<u>Total Cost of Services 2005</u>	<u>Net Cost of Services 2005</u>	<u>Total Cost of Services 2006</u>	<u>Net Cost of Services 2006</u>
Instruction				
Regular	\$323,484	\$6,995	\$576,528	\$77,858
Special	1,134,179	1,005,579	1,195,413	1,125,088
Support Services:				
Pupils	1,021,437	(84,222)	1,077,065	(190,822)
Instructional Staff	981,616	(790,111)	1,091,838	(819,266)
Board of Education	14,467	(14,467)	18,897	(18,897)
Administration	424,107	(418,147)	413,020	(387,990)
Fiscal	192,291	(133,807)	214,847	(201,266)
Business	9,583	(9,583)	11,151	(1,525)
Operation and Maintenance of Plant	98,121	(71,787)	117,324	(85,687)
Pupil Transportation	607,199	(189,328)	529,845	(37,235)
Central	28,089	(22,089)	14,576	(8,576)
Operation of Non-Instructional Services	6,476	(6,476)	6,723	(6,723)
Extracurricular Activities	2,171	(2,171)	2,708	(2,708)
Capital Outlay	94,864	(94,864)	0	0
Interest and Fiscal Charges	61,534	(61,534)	64,440	(64,440)
<i>Total Disbursements</i>	<u><u>\$4,999,618</u></u>	<u><u>(\$886,012)</u></u>	<u><u>\$5,334,375</u></u>	<u><u>(\$622,189)</u></u>

## **Preble County Educational Service Center**

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

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### **The Educational Service Center's Funds**

The Educational Service Center's major funds are accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$5,473,564 and total disbursements of \$5,401,249. The net change in fund balance for the fiscal year in the General, Public School Preschool, and the Title II-A Funds, were \$30,914, \$20,177 and (\$11,492), respectively. The slight changes in fund balances for these funds were due to close budgetary monitoring.

### **General Fund Budgeting Highlights**

The Educational Service Center's budget is based on cash receipts, disbursements and encumbrances. The Educational Service Center's most significant budgeted fund is the General Fund. The General Fund is budgeted at the fund level. The ending unobligated cash balance was \$42,852 above the final budgeted amount for the General Fund. This was largely due to actual disbursements being less than the amounts budgeted.

For the General Fund, final budget basis receipts differed from the original budgeted estimates of \$4,725,089 by (\$1,617) to \$4,726,706. Actual budget basis receipts differed from the final budget basis receipts of \$4,726,706 by only (\$21,156).

For the General Fund, final budget basis disbursements differed from the original budgeted disbursements of \$4,911,180 by \$41,121 to \$4,952,301. Actual budget basis disbursements of \$4,898,062 differed from final budget basis disbursements by only \$54,239.

### **Capital Assets**

At the end of fiscal year 2006, the Educational Service Center had \$1,756,176 invested in land, buildings, furniture, fixtures, and equipment, and vehicles.

Table 4 shows fiscal year 2005 balances compared to fiscal year 2006.

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

	2005	2006	Change
Land	\$67,956	\$67,956	\$0
Buildings	1,374,420	1,326,644	(47,776)
Furniture, Fixture and Equipment	58,382	66,007	7,625
Vehicles	216,544	295,569	79,025
<i>Totals</i>	<i>\$1,717,302</i>	<i>\$1,756,176</i>	<i>\$38,874</i>

Overall capital assets increased \$38,874 from fiscal year 2005 to fiscal year 2006, due to additions during the year exceeding depreciation expense.

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, 2006

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### **Debt Administration**

At June 30, 2006, 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>2005</u>	<u>2006</u>	<u>Change</u>
Capital Leases	<u>\$1,387,000</u>	<u>\$1,359,000</u>	<u>(\$28,000)</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](mailto:pbbo_tf@swoca.net).

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**Preble County Educational Service Center**  
 Statement of Net Assets - Modified Cash Basis  
 June 30, 2006

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$558,401
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	<u>1,688,220</u>
<i>Total Assets</i>	<u>2,314,577</u>
<b>Liabilities</b>	
Due Within One Year	29,000
Due In More Than One Year	<u>1,330,000</u>
<i>Total Liabilities</i>	<u>1,359,000</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	397,176
Restricted for Other Purposes	70,892
Restricted for Preble County Professional Development Center	30,951
Restricted for Public School Preschool	76,106
Restricted for Title II - A	59,697
Restricted for Miscellaneous Federal Grants	38,394
Unrestricted	<u>282,361</u>
<i>Total Net Assets</i>	<u>\$955,577</u>

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, 2006

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	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$576,528	\$191,756	\$462,630	\$77,858
Special	1,195,413	2,079,253	241,248	1,125,088
Support Services:				
Pupils	1,077,065	835,075	51,168	(190,822)
Instructional Staff	1,091,838	221,273	51,299	(819,266)
Board of Education	18,897	0	0	(18,897)
Administration	413,020	17,301	7,729	(387,990)
Fiscal	214,847	0	13,581	(201,266)
Business	11,151	9,626	0	(1,525)
Operation and Maintenance of Plant	117,324	22,539	9,098	(85,687)
Pupil Transportation	529,845	490,998	1,612	(37,235)
Central	14,576	0	6,000	(8,576)
Operation of Non-Instructional Services	6,723	0	0	(6,723)
Extracurricular Activities	2,708	0	0	(2,708)
Interest and Fiscal Charges	64,440	0	0	(64,440)
<i>Totals</i>	<u><u>\$5,334,375</u></u>	<u><u>\$3,867,821</u></u>	<u><u>\$844,365</u></u>	<u><u>(622,189)</u></u>
<b>General Receipts</b>				
Grants and Entitlements not Restricted to Specific Programs				714,541
Investment Earnings				26,574
Miscellaneous				<u><u>20,263</u></u>
<i>Total General Receipts</i>				<u><u>761,378</u></u>
<i>Change in Net Assets</i>				139,189
<i>Net Assets at Beginning of Year</i>				<u><u>816,388</u></u>
<i>Net Assets at End of Year</i>				<u><u>\$955,577</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, 2006

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	General	Public School Preschool	Title II-A	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	<u>\$282,361</u>	<u>\$76,106</u>	<u>\$59,697</u>	<u>\$140,237</u>	<u>\$558,401</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	\$225,104	\$4,020	\$32,056	\$88,332	\$349,512
Unreserved, Undesignated, Reported in:					
General Fund	57,257	0	0	0	57,257
Special Revenue Funds	0	72,086	27,641	51,905	151,632
<i>Total Fund Balances</i>	<u>\$282,361</u>	<u>\$76,106</u>	<u>\$59,697</u>	<u>\$140,237</u>	<u>\$558,401</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, 2006

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<b>Total Governmental Fund Balance</b>	\$558,401
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*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	1,421,609
Furniture, Fixtures, and Equipment	164,602
Vehicles	639,343
Accumulated Depreciation	<u>(537,334)</u>
 Total Capital Assets	 1,756,176

Capital Leases are not due and payable in the current period and therefore are not reported in the funds.	(1,359,000)
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<i>Net assets of Governmental Activities</i>	<u><u>\$955,577</u></u>
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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, 2006

	General	Public School Preschool	Title II-A	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>					
Intergovernmental	\$955,019	\$104,416	\$0	\$497,509	\$1,556,944
Interest	26,574	0	0	0	26,574
Tuition and Fees	1,210,892	19,851	0	41,835	1,272,578
Rent	22,012	0	0	0	22,012
Extracurricular Activities	0	0	0	3,447	3,447
Gifts and Donations	0	0	0	1,962	1,962
Charges for Services	2,473,465	0	40,287	56,032	2,569,784
Miscellaneous	19,048	0	0	1,215	20,263
<i>Total Receipts</i>	<i>4,707,010</i>	<i>124,267</i>	<i>40,287</i>	<i>602,000</i>	<i>5,473,564</i>
<b>Disbursements</b>					
Current:					
Instruction:					
Regular	104,253	48,881	0	420,718	573,852
Special	1,191,445	0	0	3,247	1,194,692
Support Services:					
Pupils	988,056	39,932	0	43,109	1,071,097
Instructional Staff	944,924	361	51,779	80,323	1,077,387
Board of Education	18,897	0	0	0	18,897
Administration	389,086	0	0	13,588	402,674
Fiscal	198,014	0	0	14,265	212,279
Business	11,151	0	0	0	11,151
Operation and Maintenance of Plant	106,317	8,545	0	544	115,406
Pupil Transportation	607,435	352	0	1,616	609,403
Central	10,349	0	0	0	10,349
Operation of Non-Instructional Services	4,857	0	0	881	5,738
Extracurricular Activities	2,708	0	0	0	2,708
Capital Outlay	3,176	0	0	0	3,176
Debt Service :					
Principal	28,000	0	0	0	28,000
Interest and Fiscal Charges	64,440	0	0	0	64,440
<i>Total Disbursements</i>	<i>4,673,108</i>	<i>98,071</i>	<i>51,779</i>	<i>578,291</i>	<i>5,401,249</i>
<i>Excess of Receipts Over (Under) Disbursements</i>	<i>33,902</i>	<i>26,196</i>	<i>(11,492)</i>	<i>23,709</i>	<i>72,315</i>
<b>Other Financing Sources (Uses)</b>					
Advances In	9,769	0	0	12,757	22,526
Advances Out	(12,757)	(6,019)	0	(3,750)	(22,526)
<i>Total Other Financing Sources (Uses)</i>	<i>(2,988)</i>	<i>(6,019)</i>	<i>0</i>	<i>9,007</i>	<i>0</i>
<i>Net Change in Fund Balance</i>	<i>30,914</i>	<i>20,177</i>	<i>(11,492)</i>	<i>32,716</i>	<i>72,315</i>
<i>Fund Balances at Beginning of Year</i>	<i>251,447</i>	<i>55,929</i>	<i>71,189</i>	<i>107,521</i>	<i>486,086</i>
<i>Fund Balances at End of Year</i>	<i>\$282,361</i>	<i>\$76,106</i>	<i>\$59,697</i>	<i>\$140,237</i>	<i>\$558,401</i>

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**

Reconciliation of the Statement of Cash 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, 2006

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**Net Change in Fund Balances - Total Governmental Funds** \$72,315

*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	153,751
Depreciation Expense	(114,019)
Excess of Capital Outlay under Depreciation Expense	39,732

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	(858)
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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
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*Change in Net Assets of Governmental Activities* \$139,189

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, 2006

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	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Receipts</b>				
Intergovernmental	\$964,000	\$964,000	\$955,019	(\$8,981)
Interest	6,000	6,000	25,114	19,114
Tuition and Fees	1,198,077	1,199,044	1,210,892	11,848
Rent	20,500	20,500	22,012	1,512
Charges for Services	2,520,412	2,521,062	2,473,465	(47,597)
Miscellaneous	16,100	16,100	19,048	2,948
<i>Total Receipts</i>	<i>4,725,089</i>	<i>4,726,706</i>	<i>4,705,550</i>	<i>(21,156)</i>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	111,039	111,818	105,413	6,405
Special	1,195,860	1,208,696	1,193,440	15,256
Support Services:				
Pupils	1,039,980	1,029,172	1,016,172	13,000
Instructional Staff	1,026,256	1,010,017	1,010,017	0
Board of Education	22,800	23,547	20,509	3,038
Administration	402,996	407,253	402,959	4,294
Fiscal	203,627	237,267	235,328	1,939
Business	11,782	12,782	12,086	696
Operation and Maintenance of Plant	118,065	112,242	110,618	1,624
Pupil Transportation	626,607	674,232	669,060	5,172
Central	41,624	20,261	19,279	982
Operation of Non-Instructional Services	5,200	5,200	4,857	343
Extracurricular Activities	4,072	3,669	2,708	961
Capital Outlay	998	3,176	3,176	0
Debt Service:				
Principal	28,000	28,000	28,000	0
Interest	72,274	64,969	64,440	529
<i>Total Disbursements</i>	<i>4,911,180</i>	<i>4,952,301</i>	<i>4,898,062</i>	<i>54,239</i>
<i>Excess of Receipts Under Disbursements</i>	<i>(186,091)</i>	<i>(225,595)</i>	<i>(192,512)</i>	<i>33,083</i>
<b>Other Financing Sources (Uses)</b>				
Advances In	0	0	9,769	9,769
Advances Out	0	(12,757)	(12,757)	0
<i>Total Other Financing Sources (Uses)</i>	<i>0</i>	<i>(12,757)</i>	<i>(2,988)</i>	<i>9,769</i>
<i>Net Change in Fund Balances</i>	<i>(186,091)</i>	<i>(238,352)</i>	<i>(195,500)</i>	<i>42,852</i>
<i>Fund Balances at Beginning of Year</i>	<i>163,514</i>	<i>163,514</i>	<i>163,514</i>	<i>0</i>
<i>Prior Year Encumbrances Appropriated</i>	<i>86,227</i>	<i>86,227</i>	<i>86,227</i>	<i>0</i>
<i>Fund Balances at End of Year</i>	<i>\$63,650</i>	<i>\$11,389</i>	<i>\$54,241</i>	<i>\$42,852</i>

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, 2006

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	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Receipts</b>				
Intergovernmental	\$102,558	\$105,018	\$104,416	(\$602)
Tuition and Fees	10,000	10,000	19,851	9,851
<i>Total Receipts</i>	<i>112,558</i>	<i>115,018</i>	<i>124,267</i>	<i>9,249</i>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	97,804	109,094	48,886	60,208
Support Services:				
Pupils	47,629	47,697	43,892	3,805
Instructional Staff	3,377	3,575	361	3,214
Fiscal	0	3,596	0	3,596
Operation and Maintenance of Plant	18,962	16,197	8,600	7,597
Pupil Transportation	720	720	352	368
<i>Total Disbursements</i>	<i>168,492</i>	<i>180,879</i>	<i>102,091</i>	<i>78,788</i>
<i>Excess of Receipts Over (Under) Disbursements</i>	<i>(55,934)</i>	<i>(65,861)</i>	<i>22,176</i>	<i>88,037</i>
<b>Other Financing Uses</b>				
Advances Out	0	(6,019)	(6,019)	0
<i>Net Change in Fund Balances</i>	<i>(55,934)</i>	<i>(71,880)</i>	<i>16,157</i>	<i>88,037</i>
<i>Fund Balances at Beginning of Year</i>	<i>51,794</i>	<i>51,794</i>	<i>51,794</i>	<i>0</i>
<i>Prior Year Encumbrances Appropriated</i>	<i>4,135</i>	<i>4,135</i>	<i>4,135</i>	<i>0</i>
<i>Fund Balances (Deficit) at End of Year</i>	<i>(\$5)</i>	<i>(\$15,951)</i>	<i>\$72,086</i>	<i>\$88,037</i>

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, 2006

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	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Receipts</b>				
Charges for Services	\$0	\$40,287	\$40,287	\$0
<b>Disbursements</b>				
Current:				
Support Services:				
Instructional Staff	<u>71,189</u>	<u>111,476</u>	<u>83,835</u>	<u>27,641</u>
<i>Net Change in Fund Balances</i>	(71,189)	(71,189)	(43,548)	27,641
<i>Fund Balances at Beginning of Year</i>	69,847	69,847	69,847	0
<i>Prior Year Encumbrances Appropriated</i>	<u>1,342</u>	<u>1,342</u>	<u>1,342</u>	<u>0</u>
<i>Fund Balances at End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$27,641</u>	<u>\$27,641</u>

See Accompanying Notes to the Basic Financial Statements

See Accountants' Compilation Report

**Preble County Educational Service Center**  
Statement of Fiduciary Net Assets - Modified Cash Basis  
Fiduciary Funds  
June 30, 2006

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	Private	
	<u>Purpose Trust</u>	<u>Agency</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,330	<u>\$238</u>
<b>Liabilities</b>		
Undistributed Monies	0	<u>\$238</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u><u>\$1,330</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, 2006

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	<u>Private Purpose Trust</u>
<b>Additions</b>	
Gifts and Donations	\$1,000
Interest	<u>48</u>
<i>Total Additions</i>	1,048
<b>Deductions</b>	<u>0</u>
<i>Changes in Net Assets</i>	1,048
<i>Net Assets Beginning of Year</i>	<u>282</u>
<i>Net Assets End of Year</i>	\$1,330

See Accompanying Notes to the Basic Financial Statements

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## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **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 Purchasing Council Property, Fleet and Liability Program, and the Preble County Council of Government 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, 2006

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### **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. Generally accepted accounting principles (GAAP) 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. For governmental activities 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's 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, 2006

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### **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.

#### **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 classifies funds 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* – The Public School Preschool 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 of 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, 2006

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### *Fiduciary Funds*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's only trust fund is a private purpose trust fund 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 activity on behalf of student work programs and 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.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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.

#### **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 2006 investments were limited to the 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, 2006.

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 2006 were \$26,574, which included \$10,468 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash and cash equivalents.

#### **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.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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.

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 related of 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.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

The government-wide statement of net assets reports \$276,040 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.

#### **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. Employer Contributions to Cost-Sharing Pension Plans**

The Educational Service Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

#### **M. 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 ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2006, the School has implemented *GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”*, and *GASB Statement No. 47, “Accounting for Termination Benefits.”*

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the Educational Service Center’s financial statements for fiscal year 2006.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES** (continued)

*GASB Statement No. 47* establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on Educational Service Center's financial statements for fiscal year 2006.

### **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 and spent but not included on the budget basis operating statement. These amounts are included as receipts and disbursements 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.

#### Net Change in Fund Balance

	General	Public School Preschool	Title II-A
Modified Cash Basis	\$30,914	\$20,177	(\$11,492)
Unrecorded Cash FY 2005 - Revenue	1,784	0	0
Unrecorded Cash FY 2006 - Revenue	(3,244)	0	0
Unrecorded Cash FY 2005 - Expense	(78)	0	0
Unrecorded Cash FY 2006 - Expense	228	0	0
Adjustment for Encumbrances	(225,104)	(4,020)	(32,056)
Budget Basis	<u><u>(\$195,500)</u></u>	<u><u>\$16,157</u></u>	<u><u>(\$43,548)</u></u>

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **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 districts 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.

### **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.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 6 - DEPOSITS AND INVESTMENTS** (continued)

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 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;
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;
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); and,
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. Investments may only be made through specified dealers and institutions.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 6 - DEPOSITS AND INVESTMENTS** (continued)

#### **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 fiscal year-end, \$458,662 of the Educational Service Center's bank balance of \$659,049 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution, but not in the Educational Service Center's name.

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**

As of June 30, 2006 the Educational Service Center only had investments in STAROhio.

	<u>Fair Value</u>	<u>Maturity</u>
STAROhio	<u><u>\$17,897</u></u>	Average 33 Days

#### *Interest Rate Risk*

The Educational Service Center's investment policy follows State statute, which requires that an investment mature within five years of the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

#### *Credit Risk*

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. The Educational Service Center has no investment policy that addresses credit risk.

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 7 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2006 was as follows:

	Governmental Assets 6/30/2005	Additions	Deletions	Governmental Assets 6/30/2006
<b>Non Depreciable Assets</b>				
Land	<u>\$67,956</u>	<u>\$0</u>	<u>\$0</u>	<u>\$67,956</u>
<b>Depreciable Assets</b>				
Buildings	1,425,000	0	(3,391)	1,421,609
Furniture, Fixtures, and Equipment	150,429	25,121	(10,948)	164,602
Vehicles	<u>526,713</u>	<u>128,630</u>	<u>(16,000)</u>	<u>639,343</u>
Total Depreciable Assets	<u>2,102,142</u>	<u>153,751</u>	<u>(30,339)</u>	<u>2,225,554</u>
Less Accumulated Depreciation				
Buildings	(50,580)	(47,663)	3,278	(94,965)
Furniture, Fixtures, and Equipment	(92,047)	(17,284)	10,736	(98,595)
Vehicles	<u>(310,169)</u>	<u>(49,072)</u>	<u>15,467</u>	<u>(343,774)</u>
Total Accumulated Depreciation	<u>(452,796)</u>	<u>(114,019) *</u>	<u>29,481</u>	<u>(537,334)</u>
Total Depreciable Assets	<u>1,649,346</u>	<u>39,732</u>	<u>(858)</u>	<u>1,688,220</u>
Total Capital Assets, Net	<u><u>\$1,717,302</u></u>	<u><u>\$39,732</u></u>	<u><u>(\$858)</u></u>	<u><u>\$1,756,176</u></u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$10,564
Special	721
Support Services:	
Pupils	5,968
Instructional Staff	14,451
Administration	23,545
Fiscal	2,568
Operation and Maintenance of Plant	1,918
Pupil Transportation	49,072
Central	4,227
Operation of Non-Instructional Services	985
Total Depreciation	<u><u>\$114,019</u></u>

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **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 2006, the Educational Service Center contracted with Southwestern Ohio Educational Purchasing Council Property, Fleet, and Liability Program (Note 15) for general liability, property, and fleet insurance.

Coverage provided to the Educational Service Center 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 fiscal years. There have been no significant changes in coverage from the last fiscal year.

#### **B. Workers' Compensation**

For fiscal year 2006, 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 intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants 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 participants 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, 2006

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### **NOTE 8 - RISK MANAGEMENT** (continued)

#### **C. Medical Benefits**

For fiscal year 2006, the Educational Service Center participated in the Preble County Council of Government 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, by calling (800) 878-5853 or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org).

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 2006, 10.58 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, 2006, 2005, and 2004 were \$117,569, \$112,509, and \$107,300, respectively; 100 percent has been contributed for each fiscal year.

#### **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 website at [www.strsoh.org](http://www.strsoh.org).

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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 of 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent 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, 2006, 2005, and 2004, were \$258,283, \$168,806, and \$235,702, respectively; 100 percent has been contributed for each fiscal year. Contributions to the DC and Combined Plans for fiscal year 2006 were \$15,113 made by the Educational Service Center and \$28,321 made by the plan members.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 9 - DEFINED BENEFIT PENSION PLANS** (continued)

#### **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 of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

### **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 partial 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 STRS Ohio 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, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$19,868 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal 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 years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 10 - POSTEMPLOYMENT BENEFITS** (continued)

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the 2006 fiscal year, the Educational Service Center paid \$60,398 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 projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

### **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/LINA 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. Amounts are reimbursed to the Educational Service Center for expenditures made on work completed. The Educational Service Center will make semi-annual lease payments to National City Bank. Interest rates include both fixed and variable portions. The variable interest rates are adjusted monthly based on the TBMA Index.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 12 - CAPITALIZED LEASE - LESSEE DISCLOSURE** (continued)

The agreement is recorded on the statement of net assets as "Due Within One Year" and "Due In More Than One Year." Principal payments made during fiscal year 2006 totaled \$28,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$1,359,000.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Building	<u>\$1,254,866</u>	<u>\$83,658</u>	<u>\$1,171,208</u>

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, 2006.

Fiscal Year Ending June 30,	Long-Term Obligations
2007	\$85,450
2008	85,549
2009	85,567
2010	86,516
2011	86,355
2012-2016	432,618
2017-2021	439,373
2022-2026	445,926
2027-2031	452,910
2032-2033	91,997
Total minimum lease payments	<u>2,292,261</u>
Less: amount representing interest and charges	<u>(933,261)</u>
Present value of minimum lease payments	<u><u>\$1,359,000</u></u>

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 13 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2006 were as follows:

	Amount		Amount		Amount Due in One Year
	Outstanding 6/30/05	Additions	Deductions	Outstanding 6/30/06	
Capital Lease	\$1,387,000	\$0	\$28,000	\$1,359,000	\$29,000

The capital lease will be paid from the General Fund.

### **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 \$6,074 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 SOEPC 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 2006, the Preble County Educational Service Center paid \$55,244 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.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS** (continued)

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2006, the Preble County Educational Service Center paid \$2,425 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 participant serves on the general assembly. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

***Southwestern Ohio Educational Purchasing Council Property, Fleet, and Liability Program*** - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing 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 participants.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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### **NOTE 16 - SHARED RISK POOL**

***Preble County Council of Government Consortium*** - The Preble County Council of Government 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 participant. Premiums are paid on a monthly basis to the Consortium and their designated insurance company. The Consortium is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Consortium may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Consortium. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

### **NOTE 17 - CONTINGENCIES**

#### **A. Grants**

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2006.

#### **B. Litigation**

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

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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**NOTE 18 – 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.

The Public School Preschool Fund had an excess of appropriations over estimated resources plus available balances for the original and final budgets at June 30, 2006 of \$112,563 and \$15,951, respectively. The School District will monitor budgetary controls more closely to ensure appropriations do not exceed estimated resources and available balances in the future.



# Mary Taylor, CPA

## Auditor of State

### 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 Educational Service Center as of and for the years ended June 30, 2007, and 2006, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated April 15, 2008, wherein, we noted the Educational Service Center uses a comprehensive accounting basis other than generally accepted accounting principles. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Educational Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Educational Service Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Educational Service Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Educational Service Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Educational Service Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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

**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 matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We did note certain noncompliance or an other matter that we reported to the Educational Service Center's management in a separate letter dated April 15, 2008.

The Educational Service Center's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Educational Service Center's response and, accordingly, we express no opinion on it.

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



**Mary Taylor, CPA**  
Auditor of State

April 15, 2008

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2007 AND 2006**

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

**FINDING NUMBER 2007-001**

**Noncompliance**

**Ohio Administrative Code, § 117-2-03 (B)**, requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, for fiscal years ending December 31, 2007, and December 31, 2006, the Educational Service Center prepared 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. Pursuant to Ohio Revised Code § 117.38 the Educational Service Center can be fined and subject to various other administrative remedies for its failure to file the required financial reports.

We recommend the Educational Service Center prepares its annual financial report in accordance with generally accepted accounting principles.

**Officials' Response:**

The Preble County Educational Service Center has chosen to prepare its annual financial report on a modified cash basis for several reasons. The preparation of a full GAAP (generally accepted accounting principles) report is much more costly than a modified cash basis report. Equally important is the use of the report for our organization. This report is not requested and/or referenced on a regular basis. Since the day-to-day operation reporting is based on a cash basis, the modified cash basis reporting is also sufficient as a compilation report for our organization.

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**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2005-001	Ohio Admin. Code Section 117-2-03(B), failure to report in accordance with generally accepted accounting principles	No	Not corrected - Re-issued as Finding 2007-001





# Mary Taylor, CPA

Auditor of State

**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.**

A handwritten signature in cursive script that reads "Susan Babbitt".

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 1, 2008**