



Mary Taylor, CPA  
Auditor of State



**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report - For the Fiscal Years Ended June 30, 2009 and June 30, 2008.....	1
Management's Discussion and Analysis - For the Fiscal Year Ended June 30, 2009 .....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – Modified Cash Basis – June 30, 2009 .....	9
Statement of Activities – Modified Cash Basis – For the Fiscal Year Ended June 30, 2009.....	10
Fund Financial Statements:	
Statement of Assets and Fund Balances – Modified Cash Basis - Governmental Funds – June 30, 2009 .....	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities – Modified Cash Basis – June 30, 2009 .....	12
Statement of Cash Receipts, Disbursements and Changes In Fund Balances – Modified Cash Basis - Governmental Funds – For the Fiscal Year Ended June 30, 2009.....	13
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, 2009.....	14
Statement of Fiduciary Net Assets – Modified Cash Basis – Fiduciary Funds – June 30, 2009 .....	15
Statement of Changes in Fiduciary Net Assets – Modified Cash Basis – Fiduciary Funds – For the Fiscal Year Ended June 30, 2009 .....	16
Notes to the Basic Financial Statements – For the Fiscal Year Ended June 30, 2009.....	17
Supplemental Information:	
Schedule of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual – Budget Basis – General Fund – For the Fiscal Year Ended June 30, 2009.....	39
Notes to the Supplemental Budgetary Information – For the Fiscal Year Ended June 30, 2009.....	41
Management's Discussion and Analysis – For the Fiscal Year Ended June 30, 2008 .....	43

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**TABLE OF CONTENTS  
(Continued)**

TITLE	PAGE
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – Modified Cash Basis – June 30, 2008.....	51
Statement of Activities – Modified Cash Basis – For the Fiscal Year Ended June 30, 2008 .....	52
Fund Financial Statements:	
Statement of Assets and Fund Balances – Modified Cash Basis - Governmental Funds – June 30, 2008 .....	53
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities – Modified Cash Basis – June 30, 2008 .....	54
Statement of Cash Receipts, Disbursements and Changes In Fund Balances – Modified Cash Basis - Governmental Funds – For the Fiscal Year Ended June 30, 2008.....	55
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, 2008.....	56
Statement of Fiduciary Net Assets – Modified Cash Basis – Fiduciary Funds - June 30, 2008.....	57
Statement of Changes in Fiduciary Net Assets – Modified Cash Basis – Fiduciary Funds – For the Fiscal Year Ended June 30, 2008.....	58
Notes to the Basic Financial Statements – For the Fiscal Year Ended June 30, 2008.....	59
Supplemental Information:	
Schedule of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual – Budget Basis – General Fund – For the Fiscal Year Ended June 30, 2008.....	81
Notes to the Supplemental Budgetary Information – For the Fiscal Year Ended June 30, 2008.....	83
Independent Accountants’ Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required By <i>Government Auditing Standards</i> . .....	85
Schedule of Findings.....	87
Schedule of Prior Audit Findings.....	89



# 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 years ended June 30, 2009 and 2008, 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 1, 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, 2009 and 2008, and the respective changes in modified cash financial position thereof for the years then ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2010, 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 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

January 13, 2010

**Preble County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009

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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, 2009. 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 2009 are as follows:

- In total, net assets decreased \$147,562 from fiscal year 2008.
- General receipts accounted for \$521,663, or only 10 percent of total receipts. Program specific receipts in the form of charges for services and operating grants and contributions accounted for \$4,614,096, or 90 percent of total receipts of \$5,135,759.
- Eighty seven percent or \$4,614,096 of total disbursements of \$5,283,321 were covered by program specific receipts.

**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 explanations and details regarding the information reported in the statements.

**Preble County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009

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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 2009, 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 fund is the General Fund.

**Preble County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009

*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 2008 compared to fiscal year 2009:

Table 1  
Net Assets

	<u>2008</u>	<u>2009</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$439,379	\$374,058	(\$65,321)
Capital Assets	<u>1,554,063</u>	<u>1,442,822</u>	<u>(111,241)</u>
<i>Total Assets</i>	<u>1,993,442</u>	<u>1,816,880</u>	<u>(176,562)</u>
<b>Liabilities</b>			
Long-Term Liabilities	<u>1,307,000</u>	<u>1,278,000</u>	<u>(29,000)</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	247,063	164,822	(82,241)
Restricted	83,443	42,342	(41,101)
Unrestricted	<u>355,936</u>	<u>331,716</u>	<u>(24,220)</u>
<i>Total Net Assets</i>	<u>\$686,442</u>	<u>\$538,880</u>	<u>(\$147,562)</u>

Total assets decreased \$176,562, mostly because of decreases in capital assets. Capital assets decreased due to current year depreciation disbursements. Current and other assets consist of cash and cash equivalents, which decreased \$65,321 from fiscal year 2008.

Long-term liabilities represent the liability of the lease-purchase agreement. The change is the amount of the fiscal year 2009 principal payment made by the Educational Service Center.

**Preble County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009

Overall, net assets declined \$147,562. The majority being invested in capital assets net of related debt which decreased due to the decrease in capital assets mentioned above. Restricted net assets consist of the remaining State and Federal grant balances which have restrictions on how the monies can be spent. The decrease is due to the timing of when receipts are received and disbursements are made. Unrestricted net assets represent General Fund monies available at June 30, 2009. Page 6 gives details about the current operations of the General Fund.

Table 2 shows the changes in net assets for fiscal year 2008 compared to fiscal year 2009.

Table 2  
Changes in Net Assets

	2008	2009	Change
<b>Receipts</b>			
Program Receipts:			
Charges for Services	\$4,304,410	\$3,845,852	(\$458,558)
Operating Grants and Contributions	782,519	768,244	(14,275)
Capital Grants and Contributions	2,119	0	(2,119)
<i>Total Program Receipts</i>	<u>5,089,048</u>	<u>4,614,096</u>	<u>(474,952)</u>
General Receipts			
Grants and Entitlements not Restricted to Specific Programs	419,609	418,431	(1,178)
Investment Earnings	21,045	5,731	(15,314)
Gifts and Donations	1,192	903	(289)
Miscellaneous	55,640	96,598	40,958
<i>Total General Receipts</i>	<u>497,486</u>	<u>521,663</u>	<u>24,177</u>
<i>Total Receipts</i>	<u>5,586,534</u>	<u>5,135,759</u>	<u>(450,775)</u>
<b>Program Disbursements</b>			
Instruction:			
Regular	486,421	468,621	(17,800)
Special	1,237,128	1,107,161	(129,967)
Support Services:			
Pupils	1,154,028	1,085,478	(68,550)
Instructional Staff	1,163,670	1,123,211	(40,459)
Board of Education	26,966	25,246	(1,720)
Administration	476,824	419,826	(56,998)
Fiscal	207,269	193,196	(14,073)
Business	14,605	7,005	(7,600)
Operation and Maintenance of Plant	110,219	109,121	(1,098)
Pupil Transportation	718,083	643,455	(74,628)
Central	21,554	22,239	685
Operation of Non-Instructional Services	6,934	7,550	616
Extracurricular Activities	2,173	2,928	755
Interest and Fiscal Charges	67,312	68,284	972
<i>Total Disbursements</i>	<u>5,693,186</u>	<u>5,283,321</u>	<u>(\$409,865)</u>
<i>Decrease in Net Assets</i>	(106,652)	(147,562)	
<i>Net Assets at Beginning of Year</i>	793,094	686,442	
<i>Net Assets at End of Year</i>	<u>\$686,442</u>	<u>\$538,880</u>	

**Preble County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009

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**Governmental Activities**

Overall, receipts decreased \$450,775, with charges for services having the largest change from 2008, decreasing by \$458,558. Charges for services represent amounts charged to local school districts for services provided by the Educational Service Center. One of the local school districts did not contract with Educational Service Center during fiscal year 2009, like in prior fiscal years, for student programs including preschool, multiple disabilities and emotional disturbances programs.

Also, the timing of when receipts are received and recorded by the Educational Service Center can also cause variances from fiscal year to fiscal year. The modified cash basis of accounting does not take into account any accruals and only includes what is received and disbursed during the fiscal year being reported.

As a result of the local school district not contracting with the Educational Service Center, disbursements related to providing these services also decreased, including staff and other related materials and training.

Again it should be noted that the Educational Service Center uses the modified cash basis of accounting which does not take into account any accruals and only includes what is disbursed during the fiscal year being reported.

**The Educational Service Center's Funds**

The Educational Service Center's funds are accounted for using the modified cash basis of accounting. The only major fund for the Educational Service Center is the General Fund. The General fund accounted for 93 percent of fiscal year 2009 receipts and 91 percent of disbursements. Fund balance decreased \$24,220 because the General Fund advanced Other Governmental Funds \$32,132, which will be repaid during fiscal year 2010. Without these advances, fund balance increased \$7,912. The Educational Service Center strives to keep disbursements in line with receipts and is demonstrated by the small increase of \$7,912.

**Capital Assets**

At June 30, 2009, the Educational Service Center had \$1,442,822 invested in capital assets in the form of land, buildings, furniture, fixtures, and equipment, and vehicles. Overall capital assets decreased \$111,241 from June 30, 2008, with the majority of that decrease (\$106,978) being from current year depreciation disbursements. The only addition during the fiscal year was for a computer, and disposals included computers, a van and two school buses.

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

**Preble County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009

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**Debt Administration**

At June 30, 2009, the Educational Service Center had a lease-purchase agreement outstanding with the Columbus Regional Airport Authority in the amount of \$1,278,000. The lease-purchase agreement financed the building of a new facility for the Educational Service Center. Principal payments made during the fiscal year amounted to \$29,000. The lease-purchase agreement was originally dated April 24, 2003, and will be retired on January 1, 2032. The change from fiscal years 2008 to 2009 was due to \$29,000 of the lease being paid during the fiscal year.

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, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at pbbo\_tf@swoca.net.

**Preble County Educational Service Center**  
Statement of Net Assets - Modified Cash Basis  
June 30, 2009

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$374,058
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	1,374,866
<i>Total Assets</i>	1,816,880
<b>Liabilities</b>	
Due Within One Year	31,000
Due In More Than One Year	1,247,000
<i>Total Liabilities</i>	1,278,000
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	164,822
Restricted for Other Purposes	5,569
Restricted for Preble County Professional Development Center	22,275
Restricted for Title II - A	14,498
Unrestricted	331,716
<i>Total Net Assets</i>	\$538,880

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, 2009

	<u>Program Cash Receipts</u>			Net (Disbursements) Receipts and Changes in Net Assets
	<u>Cash Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental Activities</b>				
Instruction:				
Regular	\$468,621	\$134,783	\$446,753	\$112,915
Special	1,107,161	1,909,877	230,750	1,033,466
Support Services:				
Pupils	1,085,478	859,339	38,190	(187,949)
Instructional Staff	1,123,211	426,734	18,786	(677,691)
Board of Education	25,246	0	0	(25,246)
Administration	419,826	19,836	4,431	(395,559)
Fiscal	193,196	0	7,431	(185,765)
Business	7,005	7,728	0	723
Operation and Maintenance of Plant	109,121	23,437	0	(85,684)
Pupil Transportation	643,455	464,118	15,903	(163,434)
Central	22,239	0	6,000	(16,239)
Operation of Non-Instructional Services	7,550	0	0	(7,550)
Extracurricular Activities	2,928	0	0	(2,928)
Interest and Fiscal Charges	68,284	0	0	(68,284)
<i>Totals</i>	<u>\$5,283,321</u>	<u>\$3,845,852</u>	<u>\$768,244</u>	<u>(669,225)</u>
<b>General Receipts</b>				
Grants and Entitlements not Restricted to Specific Programs				418,431
Investment Earnings				5,731
Gifts and Donations				903
Miscellaneous				96,598
<i>Total General Receipts</i>				<u>521,663</u>
<i>Change in Net Assets</i>				(147,562)
<i>Net Assets at Beginning of Year</i>				<u>686,442</u>
<i>Net Assets at End of Year</i>				<u><u>\$538,880</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, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$331,716	\$42,342	\$374,058
<b>Fund Balances</b>			
Reserved for Encumbrances	\$69,465	\$41,067	\$110,532
Unreserved, Undesignated, (Deficit) Reported in:			
General Fund	262,251	0	262,251
Special Revenue Funds	0	1,275	1,275
<i>Total Fund Balances</i>	\$331,716	\$42,342	\$374,058

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, 2009

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**Total Governmental Fund Balance** \$374,058

*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	145,072	
Vehicles	547,259	
Accumulated Depreciation	<u>(739,074)</u>	
Total Capital Assets		1,442,822

Capital Leases are not due and payable in the current period and therefore are not reported in the funds. (1,278,000)

*Net assets of Governmental Activities* \$538,880

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, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>			
Intergovernmental	\$912,040	\$274,635	\$1,186,675
Investment Earnings	5,731	0	5,731
Tuition and Fees	3,683,932	0	3,683,932
Rent	23,315	0	23,315
Gifts and Donations	903	0	903
Charges for Services	29,242	109,363	138,605
Miscellaneous	96,598	0	96,598
<i>Total Receipts</i>	<u>4,751,761</u>	<u>383,998</u>	<u>5,135,759</u>
<b>Disbursements</b>			
Current:			
Instruction:			
Regular	221,897	231,251	453,148
Special	1,104,161	3,000	1,107,161
Support Services:			
Pupils	1,010,652	69,589	1,080,241
Instructional Staff	1,000,487	110,637	1,111,124
Board of Education	25,246	0	25,246
Administration	383,079	14,423	397,502
Fiscal	183,144	6,951	190,095
Business	7,005	0	7,005
Operation and Maintenance of Plant	107,142	70	107,212
Pupil Transportation	582,243	15,310	597,553
Central	12,012	6,000	18,012
Operation of Non-Instructional Services	6,569	0	6,569
Extracurricular Activities	2,928	0	2,928
Debt Service:			
Principal	29,000	0	29,000
Interest and Fiscal Charges	68,284	0	68,284
<i>Total Disbursements</i>	<u>4,743,849</u>	<u>457,231</u>	<u>5,201,080</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>7,912</u>	<u>(73,233)</u>	<u>(65,321)</u>
<b>Other Financing Sources (Uses)</b>			
Advances In	0	32,132	32,132
Advances Out	(32,132)	0	(32,132)
<i>Total Other Financing Sources (Uses)</i>	<u>(32,132)</u>	<u>32,132</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(24,220)	(41,101)	(65,321)
<i>Fund Balances at Beginning of Year</i>	<u>355,936</u>	<u>83,443</u>	<u>439,379</u>
<i>Fund Balances at End of Year</i>	<u><u>\$331,716</u></u>	<u><u>\$42,342</u></u>	<u><u>\$374,058</u></u>

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, 2009

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**Net Change in Fund Balances - Total Governmental Funds** (65,321)

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

Governmental funds report capital outlays as disbursements.

However, in the statement of activities, the cost of those  
assets is allocated over their estimated useful lives as  
depreciation disbursement. In the current period,  
these amounts are:

Capital Outlay	1,641	
Depreciation Disbursement	(106,978)	
Excess of Capital Outlay under Depreciation Disbursement		(105,337)

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		(5,904)
------------------------------------	--	---------

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

		<u>29,000</u>
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*Change in Net Assets of Governmental Activities*

		<u><u>(\$147,562)</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, 2009

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	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$539	<u>\$1,223</u>
<b>Liabilities</b>		
Undistributed Monies	<u>0</u>	<u>\$1,223</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>\$539</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, 2009

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	Private Purpose Trust
<b>Additions</b>	
Gifts and Donations	\$1,000
Interest	48
	1,048
<i>Total Additions</i>	1,048
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	3,508
	(2,460)
<i>Change in Net Assets</i>	(2,460)
<i>Net Assets at Beginning of Year</i>	2,999
	\$539
<i>Net Assets at End of Year</i>	\$539

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, 2009

### **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 Liability, Fleet and Property Program, and the Preble County Schools Regional Council of Governments. 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, 2009

(Continued)

**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, 2009  
(Continued)

**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, rather than reporting by type. 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. 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 is the Educational Service Center's major governmental fund:

*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.

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, 2009  
(Continued)

**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 receipts (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related disbursements (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 2009 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, 2009.

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2009  
(Continued)

**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 2009 were \$5,731, which includes \$904 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 \$1,500. 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, 2009  
(Continued)

**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 the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include 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.

**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 disbursements from one function to another or within the same function are eliminated on the statement of activities.

Exchange transactions between funds are reported as receipts 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, 2009  
(Continued)

**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 disbursement); 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, 2009

(Continued)

**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 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;

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2009  
(Continued)

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

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);
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.

*Investments*

As of June 30, 2009 the Educational Service Center's only investment was \$371,612 with STAROhio. The average maturity of STAROhio at June 30, 2009 was 58.1 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, 2009  
(Continued)

**NOTE 5 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2009 was as follows:

	<u>Balance at</u> <u>6/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>6/30/2009</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$67,956	\$0	\$0	\$67,956
Capital Assets Being Depreciated:				
Buildings	1,421,609	0	0	1,421,609
Furniture, Fixtures, and Equipment	158,670	1,641	(15,239)	145,072
Vehicles	639,343	0	(92,084)	547,259
Total Capital Assets Being Depreciated	<u>2,219,622</u>	<u>1,641</u>	<u>(107,323)</u>	<u>2,113,940</u>
Less Accumulated Depreciation				
Buildings	(189,917)	(47,373)	0	(237,290)
Furniture, Fixtures, and Equipment	(96,489)	(13,703)	9,335	(100,857)
Vehicles	(447,109)	(45,902)	92,084	(400,927)
Total Accumulated Depreciation	<u>(733,515)</u>	<u>(106,978) *</u>	<u>101,419</u>	<u>(739,074)</u>
Total Capital Assets Being Depreciated, Net	<u>1,486,107</u>	<u>(105,337)</u>	<u>(5,904)</u>	<u>1,374,866</u>
Total Capital Assets, Net	<u>\$1,554,063</u>	<u>(\$105,337)</u>	<u>(\$5,904)</u>	<u>\$1,442,822</u>

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

Instruction:	
Regular	\$10,937
Support Services:	
Pupils	3,869
Instructional Staff	12,087
Administration	23,965
Fiscal	3,101
Operation and Maintenance of Plant	1,909
Pupil Transportation	45,902
Central	4,227
Operation of Non-Instructional Services	981
Total Depreciation	<u>\$106,978</u>

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

(Continued)

**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 2009, the Educational Service Center contracted with the Southwestern Ohio Educational Purchasing Council Liability, Fleet, and Property Program (Note 13) for general liability, property, and fleet insurance.

Coverage provided to the Educational Service Center is as follows:

Property and Contents	\$300,000,000 (subject to scheduled limits
Boiler and Machinery	100,000
Inland Marine	1,000,000 occurrence
Crime Insurance	500,000 occurrence
Auto Liability/Physical Damage	1,000,000 occurrence
General Liability	1,000,000 / 3,000,000
Employee Benefit	1,000,000 / 3,000,000
School Board Legal Liability	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 2009, 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 ensures 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 Hunter Consulting 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, 2009  
(Continued)

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

**C. Medical Benefits**

For fiscal year 2009, the Educational Service Center participated in the Preble County Schools Regional Council of Governments (the Council), a shared risk pool consisting of five local School Districts and the Educational Service Center (See Note 14). The Educational Service Center pays monthly premiums to the Council for employee medical benefits. The Council is responsible for the management and operations of the program. Upon withdrawal from the Council, a participant is responsible for the payment of all Council 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**

Plan Description – The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer 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.

Funding Policy – 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 2009, 9.84 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$107,978, \$115,502, and \$113,737, respectively; 100 percent has been contributed for each fiscal year.

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2009  
(Continued)

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

**B. State Teachers Retirement System of Ohio**

Plan Description – The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 Street, 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2009  
(Continued)

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

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2009, 2008, and 2007, were \$235,510, \$259,726, and \$262,942, respectively; 100 percent has been contributed for each fiscal year. Contributions to the DC and Combined Plans for fiscal year 2009 were \$9,118 made by the Educational Service Center and \$19,209 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, 2009, 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**

**A. School Employees Retirement System**

Plan Description – The Educational Service Center participates in two cost-sharing, multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified 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, 2009

(Continued)

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

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$72,954, \$71,722, and \$54,514, respectively; 100 percent has been contributed for each fiscal year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For 2009, this actuarially required allocation was 0.66 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$7,780, \$8,322, and \$7,734, respectively; 100 percent has been contributed for each fiscal year.

**B. State Teachers Retirement System of Ohio**

Plan Description – The Educational Service Center contributes to the cost-sharing, multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$18,116, \$19,979, and \$20,226, respectively; 100 percent has been contributed for each fiscal year.

**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 Anthem Life Insurance Company.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

(Continued)

**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. The Educational Service Center will make semi-annual lease payments to US Bank.

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 2009 totaled \$29,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$1,278,000.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Building	<u>\$1,421,609</u>	<u>\$237,290</u>	<u>\$1,184,319</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, 2009.

Fiscal Year Ending June 30,	Long-Term Obligations
2010	\$97,902
2011	97,405
2012	97,807
2013	97,111
2014	97,306
2015-2019	485,007
2020-2024	480,604
2025-2029	478,402
2030-2032	283,926
Total minimum lease payments	<u>2,215,470</u>
Less: amount representing interest and charges	<u>(937,470)</u>
Present value of minimum lease payments	<u>\$1,278,000</u>

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

(Continued)

**NOTE 11 - LONG-TERM OBLIGATIONS**

The only long-term obligation the Educational Service Center has is a capital lease. During fiscal year 2009, the Educational Service Center made \$29,000 in principal payments which reduced the balance of the lease from \$1,307,000 at June 30, 2008 to \$1,278,000 at June 30, 2009. The amount due within one year is \$31,000. The capital lease will be paid from the General Fund.

**NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS**

**A. 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 \$11,493 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.

**B. Southwestern Ohio Educational Purchasing Council**

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations during the one year period. Payments to SOEPC are made from the General Fund. During fiscal year 2009, the Educational Service Center paid \$300 to SOEPC for membership dues. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2009  
(Continued)

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

**C. Southwestern Ohio Instructional Technology Association**

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. 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 21 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 is 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 2009, the Preble County Educational Service Center did not make any payments to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**NOTE 13 - INSURANCE PURCHASING POOLS**

**A. Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan**

The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an 11 member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2009  
(Continued)

**NOTE 13 - INSURANCE PURCHASING POOLS** (continued)

**B. Southwestern Ohio Educational Purchasing Council Liability, Fleet, and Property Program**

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program (LFP). The LFP's business and affairs are conducted by a six member committee consisting of various LFP 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.

**NOTE 14 - SHARED RISK POOL**

**Preble County Schools Regional Council of Governments**

The Preble County Schools Regional Council of Governments (the Council), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center. The Council 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 Council and their designated insurance company. The Council 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 Council may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Council. 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, 2009.

**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, 2009

(Continued)

**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.

**NOTE 17 - INTERFUND ACTIVITY**

At June 30, 2009, the General Fund had an unpaid interfund cash advance, in the amount of \$32,132, for a short-term loan made to Other Governmental Funds. This is expected to be received within one year.

## **Supplemental Information**

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**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, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Intergovernmental			\$912,040	
Investment Earnings			6,553	
Tuition and Fees			3,683,932	
Rent			23,315	
Gifts and Donations			903	
Charges for Services			29,242	
Miscellaneous			<u>96,598</u>	
<i>Total Receipts</i>			<u>4,752,583</u>	
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	173,387	222,960	222,960	0
Special	1,027,730	1,111,672	1,111,672	0
Support Services:				
Pupils	1,201,972	1,023,724	1,023,724	0
Instructional Staff	982,266	1,001,778	1,001,778	0
Board of Education	34,771	28,096	28,096	0
Administration	385,272	387,080	387,080	0
Fiscal	202,009	183,194	183,194	0
Business	12,144	7,005	7,005	0
Operation and Maintenance of Plant	143,965	119,345	119,345	0
Pupil Transportation	554,915	597,235	597,235	0
Central	44,238	24,515	24,515	0
Operation of Non-Instructional Services	6,038	6,569	6,569	0
Extracurricular Activities	3,234	2,928	2,928	0
Debt Service:				
Principal	29,000	29,000	29,000	0
Interest and Fiscal Charges	61,000	68,284	68,284	0
<i>Total Disbursements</i>	<u>4,861,941</u>	<u>4,813,385</u>	<u>4,813,385</u>	<u>0</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(4,861,941)</u>	<u>(4,813,385)</u>	<u>(60,802)</u>	<u>4,752,583</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	0	0	0	0
Advances Out	0	(144,046)	(32,132)	111,914
Refund of Prior Year Receipts	0	0	0	0
Other Financing Uses	<u>(13,619)</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Other Financing Sources (Uses)</i>	<u>(\$13,619)</u>	<u>(\$144,046)</u>	<u>(32,132)</u>	<u>\$111,914</u>
<i>Net Change in Fund Balance</i>			(92,934)	
<i>Fund Balance at Beginning of Year</i>			50,682	
<i>Prior Year Encumbrances Appropriated</i>			<u>304,489</u>	
<i>Fund Balance at End of Year</i>			<u>\$262,237</u>	

See Accompanying Notes to the Basic Financial Statements

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**Preble County Educational Service Center**

Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2009

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

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

**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 Fund is 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 Fund.

**Preble County Educational Service Center**  
Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2009  
(Continued)

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

Net Change in Fund Balance

	<u>General</u>
Modified Cash Basis	(\$24,220)
Unrecorded Cash FY 2008 - Revenue	973
Unrecorded Cash FY 2009 - Revenue	(151)
Unrecorded Cash FY 2008 - Expense	(208)
Unrecorded Cash FY 2009 - Expense	137
Adjustment for Encumbrances	<u>(69,465)</u>
Budget Basis	<u><u>(\$92,934)</u></u>

**Preble County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

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, 2008. 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 2008 are as follows:

In total, net assets decreased \$106,652, which represents a 13.45 percent decrease from fiscal year 2007.

General receipts accounted for \$497,486 or 8.91 percent of total receipts. Program specific receipts in the form of charges for services and operating grants, capital grants and contributions accounted for \$5,089,048 or 91.09 percent of total receipts of \$5,586,534.

The Educational Service Center had \$5,693,186 in disbursements; \$5,089,048 of these disbursements were offset by program specific charges for services, grants or contributions.

The General Fund had \$5,162,473 in receipts and \$5,172,914 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 explanations and details regarding the information reported in the statements.

**Preble County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

*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 2008, 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 fund is the General Fund.

**Preble County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

*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 2007 compared to fiscal year 2008:

Table 1  
Net Assets

	<u>2007</u>	<u>2008</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$466,704	\$439,379	(\$27,325)
Capital Assets	1,656,390	1,554,063	(102,327)
<i>Total Assets</i>	<u>2,123,094</u>	<u>1,993,442</u>	<u>(129,652)</u>
<b>Liabilities</b>			
Long-Term Liabilities	<u>1,330,000</u>	<u>1,307,000</u>	<u>(23,000)</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	326,390	247,063	(79,327)
Restricted	118,603	83,443	(35,160)
Unrestricted	348,101	355,936	7,835
<i>Total Net Assets</i>	<u>\$793,094</u>	<u>\$686,442</u>	<u>(\$106,652)</u>

**Preble County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

Total assets decreased by \$129,652. 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 2008 in Other Governmental Funds. This decrease in cash is due to the timing of when receipts and disbursements are recorded relating to State and Federal Grants. The decrease in capital assets is the result of current year depreciation and deletions exceeding current year additions. Long-term liabilities decreased by \$23,000 due to the payment of the capital lease. The decrease in net assets of \$106,652 was mainly due to depreciation disbursement for capital assets which was \$110,688 for fiscal year 2008.

Table 2 shows the changes in net assets for fiscal year 2007 compared to fiscal year 2008.

Table 2  
Changes in Net Assets

	2007	2008	Change
<b>Receipts</b>			
Program Receipts:			
Charges for Services	\$3,920,904	\$4,304,410	\$383,506
Operating Grants and Contributions	732,223	782,519	50,296
Capital Grants and Contributions	4,125	2,119	(2,006)
<i>Total Program Receipts</i>	<u>4,657,252</u>	<u>5,089,048</u>	<u>431,796</u>
General Receipts			
Grants and Entitlements	705,241	419,609	(285,632)
Investment Earnings	37,194	21,045	(16,149)
Gifts and Donations	350	1,192	842
Miscellaneous	44,897	55,640	10,743
<i>Total General Receipts</i>	<u>787,682</u>	<u>497,486</u>	<u>(290,196)</u>
<i>Total Receipts</i>	<u>5,444,934</u>	<u>5,586,534</u>	<u>141,600</u>
<b>Program Disbursements</b>			
Instruction:			
Regular	518,203	486,421	(31,782)
Special	1,252,635	1,237,128	(15,507)
Support Services:			
Pupils	1,057,774	1,154,028	96,254
Instructional Staff	1,181,505	1,163,670	(17,835)
Board of Education	24,002	26,966	2,964
Administration	474,787	476,824	2,037
Fiscal	189,206	207,269	18,063
Business	11,108	14,605	3,497
Operation and Maintenance of Plant	103,210	110,219	7,009
Pupil Transportation	686,650	718,083	31,433
Central	27,306	21,554	(5,752)
Operation of Non-Instructional Services	7,191	6,934	(257)
Extracurricular Activities	2,508	2,173	(335)
Interest and Fiscal Charges	71,332	67,312	(4,020)
<i>Total Disbursements</i>	<u>5,607,417</u>	<u>5,693,186</u>	<u>\$85,769</u>
<i>Decrease in Net Assets</i>	(162,483)	(106,652)	
<i>Net Assets at Beginning of Year</i>	955,577	793,094	
<i>Net Assets at End of Year</i>	<u>\$793,094</u>	<u>\$686,442</u>	

**Preble County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

**Governmental Activities**

Overall, receipts increased by \$141,600, mainly the result of the Educational Service Center receiving more money from the local school districts for additional services provided. Also, the timing of when receipts are received and recorded by the Educational Service Center can also cause variances from year to year. The modified cash basis of accounting does not take into account any accruals and only includes what is received and disbursed during the fiscal year being reported.

Charges for services increased by \$383,506, and grants and entitlements decreased by \$285,632. These large variances are the result of the Educational Service Center posting receipts differently per Auditor of State Bulletin 2007-005. This bulletin changed classifications of some of the money the Educational Service Center received from the State. These two receipts combined show an increase of \$97,874 which was the result of receiving additional revenue from the local school districts for additional programs provided.

Disbursements increased by only 1.53 percent or \$85,769 over fiscal year 2007 due to the Educational Service Center tightly monitoring expenses throughout the fiscal year. Again it should be noted that the Educational Service Center uses the modified cash basis of accounting which does not take into account any accruals and only includes what is disbursed during the fiscal year being reported.

Table 3  
Governmental Activities

	<u>Total Cost of Services 2007</u>	<u>Net Cost of Services 2007</u>	<u>Total Cost of Services 2008</u>	<u>Net Cost of Services 2008</u>
Instruction:				
Regular	\$518,203	(\$22,278)	\$486,421	\$105,613
Special	1,252,635	1,093,863	1,237,128	1,178,780
Support Services:				
Pupils	1,057,774	(116,069)	1,154,028	(141,904)
Instructional Staff	1,181,505	(903,372)	1,163,670	(708,937)
Board of Education	24,002	(24,002)	26,966	(26,966)
Administration	474,787	(454,151)	476,824	(452,633)
Fiscal	189,206	(162,892)	207,269	(182,129)
Business	11,108	(942)	14,605	(5,802)
Operation and Maintenance of Plant	103,210	(70,898)	110,219	(93,719)
Pupil Transportation	686,650	(187,087)	718,083	(184,468)
Central	27,306	(21,306)	21,554	(15,554)
Operation of Non-Instructional Services	7,191	(7,191)	6,934	(6,934)
Extracurricular Activities	2,508	(2,508)	2,173	(2,173)
Interest and Fiscal Charges	71,332	(71,332)	67,312	(67,312)
<i>Total Disbursements</i>	<u>\$5,607,417</u>	<u>(\$950,165)</u>	<u>\$5,693,186</u>	<u>(\$604,138)</u>

**Preble County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

**The Educational Service Center's Funds**

The Educational Service Center's funds are accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$5,586,534 and total disbursements of \$5,613,859. The net change in fund balance for the fiscal year was \$7,835 in the General Fund. The slight increase in fund balance for the General Fund was due to close budgetary monitoring throughout fiscal year 2008.

**Capital Assets**

At the end of fiscal year 2008, the Educational Service Center had \$1,554,063 invested in land, buildings, furniture, fixtures, and equipment, and vehicles.

Table 4 shows fiscal year 2007 balances compared to fiscal year 2008 balances.

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

	<u>2007</u>	<u>2008</u>	<u>Change</u>
Land	\$67,956	\$67,956	\$0
Buildings	1,279,065	1,231,692	(47,373)
Furniture, Fixture and Equipment	66,526	62,181	(4,345)
Vehicles	242,843	192,234	(50,609)
<i>Totals</i>	<u>\$1,656,390</u>	<u>\$1,554,063</u>	<u>(\$102,327)</u>

Overall capital assets decreased \$102,327 from fiscal year 2007 to fiscal year 2008. The decrease was due to the current year depreciation expense of \$110,688 and the loss on disposal of capital assets of \$21,365 exceeding current year additions of \$29,726.

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

**Debt Administration**

At June 30, 2008, 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 2007 to 2008 was due to \$23,000 of the lease being paid off during the fiscal year.

**Preble County Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2008**

Table 5  
 Outstanding Debt at June 30,

	2007	2008	Change
Capital Lease	\$1,330,000	\$1,307,000	(\$23,000)

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.

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**Preble County Educational Service Center**  
Statement of Net Assets - Modified Cash Basis  
June 30, 2008

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$439,379
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	1,486,107
<i>Total Assets</i>	1,993,442
<b>Liabilities</b>	
Due Within One Year	29,000
Due In More Than One Year	1,278,000
<i>Total Liabilities</i>	1,307,000
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	247,063
Restricted for Other Purposes	13,506
Restricted for Preble County Professional Development Center	20,024
Restricted for Title II - A	21,198
Restricted for Miscellaneous State Grants	5,930
Restricted for Miscellaneous Federal Grants	22,785
Unrestricted	355,936
<i>Total Net Assets</i>	\$686,442

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, 2008

	Program Cash Receipts				Net (Disbursements)
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Receipts and Changes in Net Assets
<b>Governmental Activities</b>					<b>Governmental Activities</b>
Instruction:					
Regular	\$486,421	\$150,297	\$441,737	\$0	\$105,613
Special	1,237,128	2,185,039	230,869	0	1,178,780
Support Services:					
Pupils	1,154,028	969,088	43,036	0	(141,904)
Instructional Staff	1,163,670	429,733	25,000	0	(708,937)
Board of Education	26,966	0	0	0	(26,966)
Administration	476,824	10,459	13,732	0	(452,633)
Fiscal	207,269	13,631	11,509	0	(182,129)
Business	14,605	8,803	0	0	(5,802)
Operation and Maintenance of Plant	110,219	16,500	0	0	(93,719)
Pupil Transportation	718,083	520,860	10,636	2,119	(184,468)
Central	21,554	0	6,000	0	(15,554)
Operation of Non-Instructional Services	6,934	0	0	0	(6,934)
Extracurricular Activities	2,173	0	0	0	(2,173)
Interest and Fiscal Charges	67,312	0	0	0	(67,312)
<i>Totals</i>	<u>\$5,693,186</u>	<u>\$4,304,410</u>	<u>\$782,519</u>	<u>\$2,119</u>	<u>(604,138)</u>
<b>General Receipts</b>					
Grants and Entitlements not Restricted to Specific Programs					
					419,609
Investment Earnings					
					21,045
Gifts and Donations					
					1,192
Miscellaneous					
					55,640
<i>Total General Receipts</i>					
					497,486
<i>Change in Net Assets</i>					
					(106,652)
<i>Net Assets at Beginning of Year</i>					
					793,094
<i>Net Assets at End of Year</i>					
					\$686,442

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, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$355,936	\$83,443	\$439,379
<b>Fund Balances</b>			
Reserved for Encumbrances	\$304,489	\$110,934	\$415,423
Unreserved, Undesignated, (Deficit) Reported in:			
General Fund	51,447	0	51,447
Special Revenue Funds	0	(27,491)	(27,491)
<i>Total Fund Balances</i>	\$355,936	\$83,443	\$439,379

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, 2008

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**Total Governmental Fund Balance** \$439,379

*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	158,670	
Vehicles	639,343	
Accumulated Depreciation	<u>(733,515)</u>	
Total Capital Assets		1,554,063

Capital Leases are not due and payable in the current period and therefore are not reported in the funds. (1,307,000)

*Net assets of Governmental Activities* \$686,442

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, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>			
Intergovernmental	\$845,154	\$359,093	\$1,204,247
Investment Earnings	21,045	0	21,045
Tuition and Fees	4,175,596	0	4,175,596
Rent	16,500	0	16,500
Gifts and Donations	1,192	0	1,192
Charges for Services	47,346	64,968	112,314
Miscellaneous	55,640	0	55,640
<i>Total Receipts</i>	<u>5,162,473</u>	<u>424,061</u>	<u>5,586,534</u>
<b>Disbursements</b>			
Current:			
Instruction:			
Regular	237,899	241,215	479,114
Special	1,235,665	1,151	1,236,816
Support Services:			
Pupils	1,077,404	71,637	1,149,041
Instructional Staff	1,061,573	88,832	1,150,405
Board of Education	26,966	0	26,966
Administration	452,990	8,205	461,195
Fiscal	192,173	11,995	204,168
Business	14,605	0	14,605
Operation and Maintenance of Plant	107,655	655	108,310
Pupil Transportation	656,219	11,255	667,474
Central	11,327	6,000	17,327
Operation of Non-Instructional Services	5,953	0	5,953
Extracurricular Activities	2,173	0	2,173
Debt Service:			
Principal	23,000	0	23,000
Interest and Fiscal Charges	67,312	0	67,312
<i>Total Disbursements</i>	<u>5,172,914</u>	<u>440,945</u>	<u>5,613,859</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(10,441)</u>	<u>(16,884)</u>	<u>(27,325)</u>
<b>Other Financing Sources (Uses)</b>			
Advances In	18,276	0	18,276
Advances Out	0	(18,276)	(18,276)
<i>Total Other Financing Sources (Uses)</i>	<u>18,276</u>	<u>(18,276)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	7,835	(35,160)	(27,325)
<i>Fund Balances at Beginning of Year (Restated Note 17)</i>	<u>348,101</u>	<u>118,603</u>	<u>466,704</u>
<i>Fund Balances at End of Year</i>	<u><u>\$355,936</u></u>	<u><u>\$83,443</u></u>	<u><u>\$439,379</u></u>

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, 2008

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**Net Change in Fund Balances - Total Governmental Funds** (27,325)

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

Governmental funds report capital outlays as disbursements.

However, in the statement of activities, the cost of those  
assets is allocated over their estimated useful lives as  
depreciation disbursement. In the current period,  
these amounts are:

Capital Outlay	29,726	
Depreciation Disbursement	(110,688)	
Excess of Capital Outlay under Depreciation Disbursement		(80,962)

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		(21,365)
------------------------------------	--	----------

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

		<u>23,000</u>
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*Change in Net Assets of Governmental Activities*

		<u><u>(\$106,652)</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, 2008

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	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$2,999	<u><u>\$3,346</u></u>
<b>Liabilities</b>		
Undistributed Monies	<u>0</u>	<u><u>\$3,346</u></u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u><u>\$2,999</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, 2008

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	Private Purpose Trust
<b>Additions</b>	
Gifts and Donations	\$2,470
Interest	91
	2,561
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	500
	2,061
<i>Changes in Net Assets</i>	2,061
<i>Net Assets at Beginning of Year</i>	938
	2,999
<i>Net Assets at End of Year</i>	\$2,999

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, 2008

**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 Schools Regional Council of Governments. 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, 2008

(Continued)

**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, 2008  
(Continued)

**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 is the Educational Service Center's major governmental fund:

*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.

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, 2008  
(Continued)

**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 2008 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, 2008.

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008  
(Continued)

**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 2008 were \$21,045, which includes \$4,049 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, 2008  
(Continued)

**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 \$83,443 of restricted net assets, none of which 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 disbursements from one function to another or within the same function are eliminated on the statement of activities.

Exchange transactions between funds are reported as receipts 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, 2008  
(Continued)

**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 disbursement); 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, 2008  
(Continued)

**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, 2008  
(Continued)

**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.

**Investments**

As of June 30, 2008 the Educational Service Center only had investments in STAROhio.

STAROhio	Fair Value \$19,603	Maturity Average 53.8 Days
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*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, 2008  
(Continued)

**NOTE 5 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2008 was as follows:

	<u>Balance at</u> <u>6/30/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>6/30/2008</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$67,956	\$0	\$0	\$67,956
Capital Assets Being Depreciated:				
Buildings	1,421,609	0	0	1,421,609
Furniture, Fixtures, and Equipment	174,096	29,726	(45,152)	158,670
Vehicles	639,343	0	0	639,343
Total Capital Assets Being Depreciated	<u>2,235,048</u>	<u>29,726</u>	<u>(45,152)</u>	<u>2,219,622</u>
Less Accumulated Depreciation				
Buildings	(142,544)	(47,373)	0	(189,917)
Furnitures, Fixtures, and Equipment	(107,570)	(12,706)	23,787	(96,489)
Vehicles	(396,500)	(50,609)	0	(447,109)
Total Accumulated Depreciation	<u>(646,614)</u>	<u>(110,688) *</u>	<u>23,787</u>	<u>(733,515)</u>
Total Capital Assets Being Depreciated, Net	<u>1,588,434</u>	<u>(80,962)</u>	<u>(21,365)</u>	<u>1,486,107</u>
Total Capital Assets, Net	<u>\$1,656,390</u>	<u>(\$80,962)</u>	<u>(\$21,365)</u>	<u>\$1,554,063</u>

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

Instruction:	
Regular	\$13,317
Special	312
Support Services:	
Pupils	4,196
Instructional Staff	12,871
Administration	19,165
Fiscal	3,101
Operation and Maintenance of Plant	1,909
Pupil Transportation	50,609
Central	4,227
Operation of Non-Instructional Services	981
Total Depreciation	<u>\$110,688</u>

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

**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 2008, the Educational Service Center contracted with the 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 and Contents	\$300,000,000 (subject to scheduled limits)
Boiler and Machinery	50,000,000
Inland Marine	1,000,000 occurrence
Crime Insurance	500,000 occurrence
Auto Liability/Physical Damage	1,000,000 occurrence
General Liability	1,000,000 / 3,000,000
Employee Benefit	1,000,000 / 3,000,000
School Board Legal Liability	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 2008, 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 Hunter Consulting 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, 2008  
(Continued)

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

**C. Medical Benefits**

For fiscal year 2008, the Educational Service Center participated in the Preble County Schools Regional Council of Governments (the Council), 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 Council for employee medical benefits. The Council is responsible for the management and operations of the program. Upon withdrawal from the Council, a participant is responsible for the payment of all Council 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**

Plan Description – The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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.

Funding Policy – 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 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$115,502, \$113,737, and \$117,569, respectively; 100 percent has been contributed for each fiscal year.

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008  
(Continued)

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

**B. State Teachers Retirement System**

Plan Description – The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 Street, 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, 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.

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008  
(Continued)

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

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2008, 2007, and 2006, were \$259,726, \$262,942, and \$258,283, respectively; 100 percent has been contributed for each fiscal year. Contributions to the DC and Combined Plans for fiscal year 2008 were \$10,809 made by the Educational Service Center and \$20,610 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, 2008, 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**

**A. School Employees Retirement System**

Plan Description – The Educational Service Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified 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, 2008

(Continued)

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

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$71,722, \$54,514, and \$60,398 respectively; 100 percent has been contributed for each fiscal year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$8,322, \$7,734, and \$9,837 respectively; 100 percent has been contributed for each fiscal year.

**B. State Teachers Retirement System**

Plan Description – The School District contributes to the cost-sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$19,979, \$20,226, and \$19,868 respectively; 100 percent has been contributed for each fiscal year.

**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, 2008

(Continued)

**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 US Bank. In prior years, the Educational Service Center had both fixed and variable portions of the existing loan. On July 2, 2007, the Educational Service Center entered into a new agreement on the variable portion of the loan. The remaining variable rate balance of \$457,000 will now be amortized at a fixed rate of 5.26 percent a year.

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 2008 totaled \$23,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$1,307,000.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Building	<u>\$1,421,609</u>	<u>\$189,917</u>	<u>\$1,231,692</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, 2008.

Fiscal Year Ending June 30,	Long-Term Obligations
2009	\$97,295
2010	97,902
2011	97,405
2012	97,807
2013	97,111
2014-2018	484,939
2019-2023	481,879
2024-2028	479,126
2029-2032	<u>379,301</u>
Total minimum lease payments	2,312,765
Less: amount representing interest and charges	<u>(1,005,765)</u>
Present value of minimum lease payments	<u>\$1,307,000</u>

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008  
(Continued)

**NOTE 11 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center’s long-term obligations during fiscal year 2008 were as follows:

	Amount Outstanding 6/30/2007	Additions	Deductions	Amount Outstanding 6/30/2008	Amount Due in One Year
Capital Lease	\$1,330,000	\$0	\$23,000	\$1,307,000	\$29,000

The capital lease will be paid from the General Fund.

**NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS**

**A. 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 \$5,539 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.

**B. Southwestern Ohio Educational Purchasing Council**

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. 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 during the one year period. Payments to SOEPC are made from the General Fund. During fiscal year 2007, the Educational Service Center paid \$2,925 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

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

**C. 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 2008, the Preble County Educational Service Center paid \$2,880 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Project Manager, at 150 East Sixth Street, Franklin, Ohio 45005.

**NOTE 13 - INSURANCE PURCHASING POOLS**

**A. 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.

**B. 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, 2008  
(Continued)

**NOTE 14 - SHARED RISK POOL**

**Preble County Schools Regional Council of Governments**

The Preble County Schools Regional Council of Governments (the Council), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center. The Council 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 Council and their designated insurance company. The Council 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 Council may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Council. 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, 2008.

**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, 2008  
(Continued)

**NOTE 17 - INTERFUND ACTIVITY**

At June 30, 2008, the General Fund received repayments from Other Governmental Funds of \$18,276 for short-term loans made during fiscal year 2007.

**NOTE 18 - RESTATEMENT OF FUND BALANCE**

For fiscal year 2008, the Educational Service Center changed the fund classifications in the General Fund. The change had the following effect on fund balances:

	General Fund	Nonmajor Funds	Totals
Fund Balance at 6/30/07	\$243,764	\$222,940	\$466,704
Fund Reclassification	104,337	(104,337)	0
Restated Fund Balance at 6/30/07	\$348,101	\$118,603	\$466,704

## **Supplemental Information**

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**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, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Intergovernmental			\$845,154	
Investment Earnings			23,501	
Tuition and Fees			4,175,596	
Rent			16,500	
Gifts and Donations			1,192	
Charges for Services			47,346	
Miscellaneous			<u>61,130</u>	
<i>Total Receipts</i>			<u>5,170,419</u>	
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	186,289	321,724	240,551	81,173
Special	1,161,829	1,217,772	1,241,357	(23,585)
Support Services:				
Pupils	1,048,575	1,112,786	1,162,353	(49,567)
Instructional Staff	1,079,338	1,123,600	1,137,157	(13,557)
Board of Education	31,256	32,526	31,494	1,032
Administration	446,069	477,677	468,352	9,325
Fiscal	225,272	230,942	217,276	13,666
Business	12,751	12,794	15,999	(3,205)
Operation and Maintenance of Plant	144,154	147,125	115,451	31,674
Pupil Transportation	687,062	688,707	721,529	(32,822)
Central	40,630	40,630	27,265	13,365
Operation of Non-Instructional Services	6,000	6,931	5,953	978
Extracurricular Activities	3,500	3,500	2,257	1,243
Debt Service:				
Principal	23,000	23,000	23,000	0
Interest and Fiscal Charges	<u>67,000</u>	<u>67,100</u>	<u>67,312</u>	<u>(212)</u>
<i>Total Disbursements</i>	<u>5,162,725</u>	<u>5,506,814</u>	<u>5,477,306</u>	<u>29,508</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(5,162,725)</u>	<u>(5,506,814)</u>	<u>(306,887)</u>	<u>5,199,927</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	0	(164,272)	0	164,272
Advances In	0	2,472	18,276	15,804
Advances Out	0	(15,067)	0	15,067
Refund of Prior Year Receipts	(378)	(378)	0	378
Other Financing Uses	<u>(2,330)</u>	<u>(45,657)</u>	<u>0</u>	<u>45,657</u>
<i>Total Other Financing Sources (Uses)</i>	<u>(\$2,708)</u>	<u>(\$222,902)</u>	<u>18,276</u>	<u>\$241,178</u>
<i>Net Change in Fund Balance</i>			(288,611)	
<i>Fund Balance at Beginning of Year</i>			111,462	
<i>Prior Year Encumbrances Appropriated</i>			<u>227,831</u>	
<i>Fund Balance at End of Year</i>			<u>\$50,682</u>	

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**Preble County Educational Service Center**

Budgetary Notes

For the Fiscal Year Ended June 30, 2008

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

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

**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 Fund is 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 Fund.

**Preble County Educational Service Center**  
Budgetary Notes  
For the Fiscal Year Ended June 30, 2008

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

Net Change in Fund Balance

	<u>General</u>
Modified Cash Basis	\$7,835
Unrecorded Cash FY 2007 - Revenue	8,919
Unrecorded Cash FY 2008 - Revenue	(973)
Unrecorded Cash FY 2007 - Expense	(111)
Unrecorded Cash FY 2008 - Expense	208
Adjustment for Encumbrances	<u>(304,489)</u>
Budget Basis	<u><u>(\$288,611)</u></u>



# 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, Preble County, Ohio (the Educational Service Center), as of and for the years ended June 30, 2009 and 2008, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated January 13, 2010, 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.

We noted a certain internal control matter that we reported to the Educational Service Center's management in a separate letter dated January 13, 2010.

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

### **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 2009-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Educational Service Center's management in a separate letter dated January 13, 2010.

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

January 13, 2010

PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2009 AND 2008

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

FINDING NUMBER 2009-001

**Noncompliance**

**Ohio Revised Code, § 117.38**, provides that each public official shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public official shall submit its report on the form utilized by the public office. Ohio Administrative Code 117-2-03 further clarifies the requirements of Ohio Revised Code 117.38.

**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 June 30, 2009, and June 30, 2008, 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, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2007-001	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 2009-001.