

**Preble County  
Educational Service Center  
Financial Statements  
June 30, 2011**





# Dave Yost • Auditor of State

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

We have reviewed the *Report on Independent Accountants* of the Preble County Educational Service Center, Preble County, prepared by Joseph Decosimo and Company, LLC, for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Preble County Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

February 25, 2013

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# Preble County Educational Service Center

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## Report of Independent Accountants

Board of Education  
Preble County Educational Service Center  
Eaton, Ohio

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, as of and for the year ended June 30, 2011, which collectively comprise Preble County Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Preble County 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

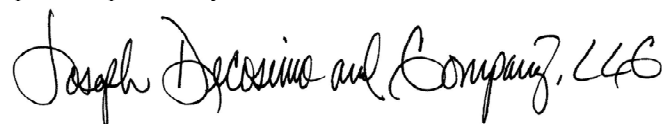
Ohio Administrative Code Section 117-2-03 (B) requires Preble County Educational Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2C, the accompanying financial statements and 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 financial position - modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of Preble County Educational Service Center as of June 30, 2011, and the respective changes in financial position - modified cash basis thereof for the year then ended, in conformity with the basis of accounting described in Note 2C.

As described in Note 19, during 2011 the Preble County Educational Service Center adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of Preble County Educational Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the modified cash basis financial statements that collectively comprise Preble County Educational Service Center's basic financial statements. The tables of net assets, and changes in net assets included in the Management Discussion and Analysis and the budgetary comparison information (supplemental information) are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The tables and budgetary information (supplemental information) have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the tables and budgetary information (supplemental information) are fairly stated in all material respects in relation to the basic financial statements as a whole. Other than the aforementioned procedures applied to the tables, the remaining information in Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Cincinnati, Ohio  
December 20, 2012

**Preble County Educational Service Center**  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2011

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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, 2011. 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 2011 are as follows:

- Due to changes in the School Employees Retirement System collection process, the Educational Service Center had two full years of payments made for employee benefits during fiscal year 2011.
- Eighty-seven percent of the Educational Service Center's disbursements are covered by program cash receipts, which include grant receipts and charges to participating school districts for the services provided to their students.

**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.

*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.

**Preble County Educational Service Center**  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2011

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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 2011, within the limitations of the modified cash basis of accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental function. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Educational Service Center's general receipts.

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

**Reporting the Educational Service Center's Most Significant Funds**

*Fund Financial Statements*

Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General and Title II-A Funds.

*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.



**Preble County Educational Service Center**  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2011

*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 2011 compared to fiscal year 2010:

Table 1  
Net Assets

	2011	(Restated) 2010	Change
<b>Assets</b>			
Current and Other Assets	\$200,325	\$335,522	(\$135,197)
Capital Assets, Net	1,256,492	1,348,272	(91,780)
<i>Total Assets</i>	<u>1,456,817</u>	<u>1,683,794</u>	<u>(226,977)</u>
<b>Liabilities</b>			
Long-Term Liabilities	<u>1,215,000</u>	<u>1,247,000</u>	<u>(32,000)</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	41,492	101,272	(59,780)
Restricted	34,984	32,836	2,148
Unrestricted	<u>165,341</u>	<u>302,686</u>	<u>(137,345)</u>
<i>Total Net Assets</i>	<u><u>\$241,817</u></u>	<u><u>\$436,794</u></u>	<u><u>(\$194,977)</u></u>

Current and other assets consist of the cash balance of the Educational Service Center at June 30, 2011. Cash decreased 40 percent as disbursements outpaced receipts due mainly to the Educational Service Center making an extra payment to SERS during fiscal year 2011 as explained on page six. Capital assets decreased due to current year deletions and depreciation disbursements.

Long-term liabilities represent the liability of the lease-purchase agreement, which funded the Educational Service Center's facilities. The change is the amount of the fiscal year 2011 principal payment.

**Preble County Educational Service Center**  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2011

Overall, net assets declined \$194,977, of which \$59,780 was a decrease in invested in capital assets net of related debt. This was due to a decrease in capital assets, net of depreciation, offset by a decrease in long-term liabilities. Capital assets, net of depreciation decreased due to current fiscal year deletions and depreciation. Restricted net assets consist of the remaining State and federal grant balances which have restrictions on how the monies can be spent and this amount increased slightly. Unrestricted net assets decreased 45 percent and represent General Fund monies available at June 30, 2011 to be spent for any purpose needed. Page six gives details about the current operations of the General Fund. Table 2 shows the changes in net assets for fiscal year 2011 compared to fiscal year 2010.

Table 2 - Changes in Net Assets

	2011	(Restated) 2010	Change
<b>Receipts</b>			
Program Receipts:			
Charges for Services	\$3,618,146	\$3,475,956	\$142,190
Operating Grants and Contributions	623,196	614,420	8,776
<i>Total Program Receipts</i>	<u>4,241,342</u>	<u>4,090,376</u>	<u>150,966</u>
General Receipts			
Grants and Entitlements not Restricted to Specific Programs	320,430	393,432	(73,002)
Interest	489	897	(408)
Gifts and Donations	882	1,127	(245)
Miscellaneous	109,944	58,484	51,460
<i>Total General Receipts</i>	<u>431,745</u>	<u>453,940</u>	<u>(22,195)</u>
<i>Total Receipts</i>	<u>4,673,087</u>	<u>4,544,316</u>	<u>128,771</u>
<b>Program Disbursements</b>			
Instruction:			
Regular	465,722	385,887	79,835
Special	853,348	974,328	(120,980)
Support Services:			
Pupils	1,051,251	937,666	113,585
Instructional Staff	1,160,930	1,104,780	56,150
Board of Education	25,765	30,566	(4,801)
Administration	507,634	389,153	118,481
Fiscal	223,081	194,790	28,291
Business	3,176	2,435	741
Operation and Maintenance of Plant	105,680	114,494	(8,814)
Pupil Transportation	379,347	402,841	(23,494)
Central	15,819	10,171	5,648
Operation of Non-Instructional Services	7,177	7,463	(286)
Extracurricular Activities	3,741	2,662	1,079
Interest and Fiscal Charges	65,393	66,891	(1,498)
<i>Total Disbursements</i>	<u>4,868,064</u>	<u>4,624,127</u>	<u>\$243,937</u>
<i>Decrease in Net Assets</i>	(194,977)	(79,811)	
<i>Net Assets at Beginning of Year</i>	<u>436,794</u>	<u>516,605</u>	
<i>Net Assets at End of Year</i>	<u>\$241,817</u>	<u>\$436,794</u>	

**Preble County Educational Service Center**  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2011

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**Governmental Activities**

Overall, receipts increased \$128,771, with charges for services having the largest change from fiscal year 2010, increasing by \$142,190. Charges for services represent amounts charged to participating school districts for services provided by the Educational Service Center. The increase in charges for services during fiscal year 2011 is due to the school districts' contracts being higher than in the previous fiscal year.

Grants and entitlements not restricted to specific programs decreased during fiscal year 2011. This decrease was due to the Educational Service Center having a reduction in State foundation funding from the previous fiscal year.

Overall disbursements increased significantly during fiscal year 2011. This increase is due mainly to changes in the School Employees Retirement System collection process, where the Educational Service Center had two full years of payments made for employee benefits during fiscal year 2011. Special Instruction decreased due largely to the Educational Service Center having less experienced staff.

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.

**The Educational Service Center's Funds**

The Educational Service Center's funds are accounted for using the modified cash basis of accounting. The major funds for the Educational Service Center are the General and Title II-A funds. The General fund accounted for 95 percent of fiscal year 2011 receipts and disbursements. The Title II-A fund accounted for 17 percent of total fund balances.

Fund balance of the General Fund decreased \$137,345 due mainly to the timing of the payments made to the School Employees' Retirement System (SERS) for employee benefits. The Educational Service center paid a full year to the SERS in July 2010 for fiscal year 2010. The Educational Service Center then began paying on a month to month basis for fiscal year 2011. Therefore, the Educational Service Center paid the SERS payment for fiscal years 2010 and 2011 during 2011, which inflated disbursements greatly and decreased the General Fund balance.

**Capital Assets**

At June 30, 2011, the Educational Service Center had \$1,256,492 invested in capital assets in the form of land, buildings, furniture, fixtures, and equipment, and vehicles. Overall capital assets decreased \$91,780 from June 30, 2010, with the majority of that decrease being from current year depreciation disbursements. For more information on capital assets, see Note 5 of the Basic Financial Statements.

**Preble County Educational Service Center**  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2011

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**Debt Administration**

At June 30, 2011, the Educational Service Center had a lease-purchase agreement outstanding with the Columbus Regional Airport Authority in the amount of \$1,215,000. 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 \$32,000. The lease-purchase agreement was originally dated April 24, 2003, and will be retired on January 1, 2032. 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 [terri.freeman@preblecountyesc.org](mailto:terri.freeman@preblecountyesc.org).

**Preble County Educational Service Center**  
Statement of Net Assets - Modified Cash Basis  
June 30, 2011

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$200,325
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	1,188,536
<i>Total Assets</i>	1,456,817
<b>Liabilities</b>	
Due Within One Year	34,000
Due In More Than One Year	1,181,000
<i>Total Liabilities</i>	1,215,000
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	41,492
Restricted for Title II-A	33,971
Restricted for Other Purposes	1,013
Unrestricted	165,341
<i>Total Net Assets</i>	\$241,817

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, 2011

	<u>Program Cash Receipts</u>			Net (Disbursements)
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Receipts and Changes in Net Assets
<b>Governmental Activities</b>				
Instruction:				
Regular	\$465,722	\$390,675	\$255,840	\$180,793
Special	853,348	1,649,116	220,751	1,016,519
Support Services:				
Pupils	1,051,251	1,082,848	24,395	55,992
Instructional Staff	1,160,930	258,396	33,262	(869,272)
Board of Education	25,765	0	0	(25,765)
Administration	507,634	11,461	84,398	(411,775)
Fiscal	223,081	0	0	(223,081)
Business	3,176	0	0	(3,176)
Operation and Maintenance of Plant	105,680	16,936	0	(88,744)
Pupil Transportation	379,347	208,714	0	(170,633)
Central	15,819	0	4,550	(11,269)
Operation of Non-Instructional Services	7,177	0	0	(7,177)
Extracurricular Activities	3,741	0	0	(3,741)
Interest and Fiscal Charges	65,393	0	0	(65,393)
<i>Totals</i>	<u>\$4,868,064</u>	<u>\$3,618,146</u>	<u>\$623,196</u>	<u>(626,722)</u>
<b>General Receipts</b>				
Grants and Entitlements not Restricted to Specific Programs				320,430
Interest				489
Gifts and Donations				882
Miscellaneous				109,944
<i>Total General Receipts</i>				<u>431,745</u>
<i>Change in Net Assets</i>				(194,977)
<i>Net Assets at Beginning of Year - Restated (See Note 19)</i>				<u>436,794</u>
<i>Net Assets at End of Year</i>				<u><u>\$241,817</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, 2011

	General Fund	Title II-A	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$165,341	\$33,971	\$1,013	\$200,325
<b>Fund Balances</b>				
Nonspendable	\$130	\$0	\$0	\$130
Restricted	0	33,971	1,013	34,984
Committed	29,125	0	0	29,125
Assigned	63,426	0	0	63,426
Unassigned	72,660	0	0	72,660
<i>Total Fund Balances</i>	\$165,341	\$33,971	\$1,013	\$200,325

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, 2011

<b>Total Governmental Fund Balance</b>	<b>\$200,325</b>
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*Amounts reported for governmental activities in the statement of net assets are different because:*

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

Land	67,956	
Buildings	1,421,609	
Furniture, Fixtures, and Equipment	108,950	
Vehicles	497,405	
Accumulated Depreciation	(839,428)	
Total Capital Assets		1,256,492

Capital Leases are not due and payable in the current period and therefore are not reported in the funds.	(1,215,000)
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<i>Net assets of Governmental Activities</i>	<b>\$241,817</b>
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See Accompanying Notes to the Basic Financial Statements



**Preble County Educational Service Center**  
Statement of Cash Receipts, Disbursements and Changes in Fund Balances  
Modified Cash Basis  
Governmental Funds  
For the Fiscal Year Ended June 30, 2011

	General Fund	Title II-A	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Intergovernmental	\$747,101	\$0	\$196,525	\$943,626
Interest	489	0	0	489
Tuition and Fees	3,560,576	0	0	3,560,576
Rent	16,936	0	0	16,936
Gifts and Donations	882	0	0	882
Charges for Services	13,025	26,034	1,575	40,634
Miscellaneous	109,944	0	0	109,944
<i>Total Receipts</i>	<u>4,448,953</u>	<u>26,034</u>	<u>198,100</u>	<u>4,673,087</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	407,695	0	49,209	456,904
Special	852,835	0	500	853,335
Support Services:				
Pupils	1,015,836	0	31,419	1,047,255
Instructional Staff	1,082,306	16,998	37,820	1,137,124
Board of Education	25,765	0	0	25,765
Administration	402,196	0	84,398	486,594
Fiscal	220,179	0	0	220,179
Business	3,176	0	0	3,176
Operation and Maintenance of Plant	103,771	0	0	103,771
Pupil Transportation	351,234	0	0	351,234
Central	11,067	0	4,550	15,617
Operation of Non-Instructional Services	6,196	0	0	6,196
Extracurricular Activities	3,741	0	0	3,741
Debt Service:				
Principal	32,000	0	0	32,000
Interest and Fiscal Charges	65,393	0	0	65,393
<i>Total Disbursements</i>	<u>4,583,390</u>	<u>16,998</u>	<u>207,896</u>	<u>4,808,284</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(134,437)</u>	<u>9,036</u>	<u>(9,796)</u>	<u>(135,197)</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	1,137	0	4,045	5,182
Advances Out	(4,045)	0	(1,137)	(5,182)
<i>Total Other Financing Sources (Uses)</i>	<u>(2,908)</u>	<u>0</u>	<u>2,908</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(137,345)	9,036	(6,888)	(135,197)
<i>Fund Balances at Beginning of Year - Restated (See Note 19)</i>	<u>302,686</u>	<u>24,935</u>	<u>7,901</u>	<u>335,522</u>
<i>Fund Balances at End of Year</i>	<u>\$165,341</u>	<u>\$33,971</u>	<u>\$1,013</u>	<u>\$200,325</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, 2011

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**Net Change in Fund Balances - Total Governmental Funds** (\$135,197)

*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:

Depreciation Disbursement (82,640)

The proceeds from the sale of capital assets are reported as receipts in the governmental funds. However, the cost of the capital assets are removed from the capital assets account in the statement of net assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the statement of activities.

Loss on Disposal of Capital Assets (9,140)

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.

32,000

*Change in Net Assets of Governmental Activities*

(\$194,977)

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, 2011

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	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$543	\$16,099
<b>Liabilities</b>		
Undistributed Monies	0	\$16,099
<b>Net Assets</b>		
Held in Trust for Scholarships	\$543	

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Statement of Changes in Fiduciary Net Assets - Modified Cash Basis  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2011

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	Private Purpose Trust
<b>Additions</b>	
Gifts and Donations	\$1,000
Interest	2
	1,002
<i>Total Additions</i>	1,002
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	1,500
	(498)
<i>Change in Net Assets</i>	(498)
<i>Net Assets at Beginning of Year</i>	1,041
	\$543
<i>Net Assets at End of Year</i>	\$543

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, 2011

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

The Preble County Educational Service Center (the “Educational Service Center”) is located in Eaton, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to area school districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently. The Educational Service Center operates under a locally elected governing board consisting of five members elected at-large for staggered four year terms.

*Reporting Entity*

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Preble County Educational Service Center, this includes the general operations of the Educational Service Center.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization’s governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization’s resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. The Educational Service Center has no component units.

The Educational Service Center participates in four 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 Preble County Professional Development Consortium, 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, 2011

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

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

**A. Basis of Presentation**

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

*Government-wide Financial Statements*

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the Educational Service Center, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities of the Educational Service Center that are governmental in nature and those that are considered business-type activities. The Educational Service Center, however, does not have any activities which are presented as business-type. Governmental activities generally are financed through 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, 2011

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

*Fund Financial Statements*

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds, 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 are the Educational Service Center's major governmental funds:

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

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

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

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

*Fiduciary Funds*

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

**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 on the financial statements as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2011 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, 2011.



**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2011 were \$489, which includes \$439 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 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 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, 2011

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

**G. Long-Term Obligations**

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

**H. Net Assets**

Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for 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**

Fund balance is divided into five classifications based primarily on the extent to which the School is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable*

The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

*Restricted*

Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

*Committed*

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Educational Service Center Board. Those committed amounts cannot be used for any other purpose unless the Educational Service Center Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned*

Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Educational Service Center Board.

*Unassigned*

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Educational Service Center applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**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. Payments for interfund services provided and used are not eliminated.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

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.

**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.

**M. Compensated Absences**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Educational Service Center.

**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.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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**NOTE 3 - STATE AND LOCAL SCHOOL DISTRICT FUNDING** (continued)

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 educational services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

**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.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

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;
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) above;
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, 2011 the Educational Service Center's only investment was \$212,052 with STAROhio. The average maturity of STAROhio at June 30, 2011 was 58 days.

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011

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

*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.

**NOTE 5 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2011 was as follows:

	Balance at 6/30/2010	Additions	Deletions	Balance at 6/30/2011
<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	136,090	0	(27,140)	108,950
Vehicles	497,405	0	0	497,405
Total Capital Assets Being Depreciated	2,055,104	0	(27,140)	2,027,964
Less Accumulated Depreciation				
Buildings	(284,663)	(47,373)	0	(332,036)
Furniture, Fixtures, and Equipment	(103,370)	(7,154)	18,000	(92,524)
Vehicles	(386,755)	(28,113)	0	(414,868)
Total Accumulated Depreciation	(774,788)	(82,640) *	18,000	(839,428)
Total Capital Assets Being Depreciated, Net	1,280,316	(82,640)	(9,140)	1,188,536
Total Capital Assets, Net	\$1,348,272	(\$82,640)	(\$9,140)	\$1,256,492

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011

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

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

Instruction:	
Regular	\$8,818
Special	13
Support Services:	
Pupils	3,996
Instructional Staff	14,666
Administration	21,040
Fiscal	2,902
Operation and Maintenance of Plant	1,909
Pupil Transportation	28,113
Central	202
Operation of Non-Instructional Services	981
Total Depreciation	<u>\$82,640</u>

**NOTE 6 - RISK MANAGEMENT**

**A. Property and Liability**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During fiscal year 2011, 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.

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 2011, 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. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Hunter Consulting Company 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, 2011

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

**C. Medical Benefits**

For fiscal year 2011, 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 and death benefit obligations with the remainder being used to fund health care benefits; for fiscal year 2011, 11.81 percent of annual covered salary was the portion used to fund pension and death benefit 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, 2011, 2010, and 2009 were \$115,930, \$131,562, and \$107,978, respectively; the full has amount been contributed for each fiscal year.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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**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, 2011, 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, 2011

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**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, 2011, 2010, and 2009 were \$258,212, \$233,822, and \$235,510, respectively; the full amount has been contributed for each fiscal year. Contributions to the DC and Combined Plans for fiscal year 2011 were unavailable.

**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, 2011, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 8 – POST-EMPLOYMENT 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 2011, 1.43 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 2011, this amount was \$35,800.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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**NOTE 8 – POST-EMPLOYMENT BENEFITS** (continued)

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.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$31,895, \$22,600, and \$72,954, respectively; the full amount 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 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$7,460, \$7,824, and \$7,780, respectively; the full amount 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 2011, 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, 2011, 2010, and 2009 were \$19,862, \$17,986, and \$18,116, respectively; the full amount 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, 2011

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**NOTE 9 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits is derived from the Educational Service Center's policy. Employees whose annual term of employment is 243 and 223 days earn five to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment.

Employees whose annual term of employment is 243 and 223 days earn sick leave at a rate of one and one fourth days per month. Sick leave may be accumulated up to a maximum of 190 days. Upon retirement, payment is made for 25 percent of their accrued but unused sick leave credit to a maximum of 30 days.

**B. Dental Care**

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

**C. Life Insurance**

The Educational Service Center provides life insurance to most employees through Anthem Life Insurance Company.

**D. 125 Plan**

The Educational Service Center provides its full-time employees, except those employed on an as needed basis, an option to participate in an I.R.C. Section 125 plan. Money allocated to this plan must be used for expenses covered by that benefit during that benefit year. Any monies not used by the end of the plan year are forfeited to the Educational Service Center. Employees may elect to have plan benefit dollars applied to an unreimbursed medical plan. Participation is renewed annually with each benefit year beginning September 1 and ending August 31. This plan has been included as an Agency Fund and is administered by Aflac.

**NOTE 10 - CAPITALIZED LEASE - LESSEE DISCLOSURE**

In fiscal year 2003, 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.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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**NOTE 10 - CAPITALIZED LEASE - LESSEE DISCLOSURE** (continued)

The agreement is recorded on the statement of net assets as “Due Within One Year” and “Due In More Than One Year.” Principal payments made during fiscal year 2011 totaled \$32,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$1,215,000.

The asset acquired through capital lease is as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Building	<u>\$1,421,609</u>	<u>\$332,036</u>	<u>\$1,089,573</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, 2011.

Fiscal Year Ending June 30,	Long-Term Obligations
2012	\$97,807
2013	97,111
2014	97,306
2015	97,358
2016	96,307
2017-2021	483,282
2022-2026	479,655
2027-2031	476,806
2032	94,531
Total minimum lease payments	2,020,163
Less: amount representing interest and charges	(805,163)
Present value of minimum lease payments	<u>\$1,215,000</u>

**NOTE 11 - LONG-TERM OBLIGATIONS**

The only long-term obligation the Educational Service Center has is a capital lease. During fiscal year 2011, the Educational Service Center made \$32,000 in principal payments which reduced the balance of the lease from \$1,247,000 at June 30, 2010 to \$1,215,000 at June 30, 2011. The amount due within one year is \$34,000. The capital lease will be paid from the General Fund.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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**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 \$9,560 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 and educational service centers 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 the SOEPC are made from the General Fund. During fiscal year 2011, the Educational Service Center paid \$1,409 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.

**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.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2011, 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.

**D. Preble County Professional Development Consortium:**

The School District is a participant in the Preble County Professional Development Consortium (PCPDC). PCPDC is an association of public school districts within the boundaries of Preble County. The organization was formed to improve staff development and instructional functions by making optimum use of public funds through cooperation of member public school districts. The governing board of PCPDC consists of one representative from each district plus one representative from the fiscal agent. The School District paid PCPDC \$6,923 for services provided during the fiscal year. Financial information can be obtained from Terri Freeman, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at pbbo\_tf@swoca.net.

**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), 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 the GRP serves as the coordinator of the program. 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 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.



**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011

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**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, 2011.

**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, 2011

**NOTE 17 - INTERFUND ACTIVITY**

At June 30, 2011, the General Fund had an unpaid interfund cash advance, in the amount of \$4,045, for a short-term loan made to Other Governmental Funds. This is expected to be received within one year. During fiscal year 2011, Other Governmental Funds returned advances made during fiscal year 2010 to the General Fund in the amount of \$1,137.

**NOTE 18 – FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	<u>Title II-A</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b><i>Nonspendable</i></b>				
Unclaimed Monies	\$130	\$0	\$0	\$130
<b><i>Restricted for</i></b>				
Improving Teacher Quality	0	33,971	0	33,971
Transition Improvement	0	0	1,013	1,013
<b><i>Total Restricted</i></b>	<b>0</b>	<b>33,971</b>	<b>1,013</b>	<b>34,984</b>
<b><i>Committed to</i></b>				
Legal and Other Contracts	29,125	0	0	29,125
<b><i>Assigned to</i></b>				
Other Purposes	63,426	0	0	63,426
<b><i>Unassigned</i></b>				
	72,660	0	0	72,660
<b><i>Total Fund Balances</i></b>	<b>\$165,341</b>	<b>\$33,971</b>	<b>\$1,013</b>	<b>\$200,325</b>

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

**NOTE 19 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE AND NET ASSETS**

**A. Changes in Accounting Principles**

For fiscal year 2011, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds of the Educational Service Center’s financial statements.

**B. Restatement of Prior Year’s Fund Balance/Net Assets**

During 2011, it was determined that the Preble County ESC Professional Development Center special revenue fund should have been recorded as an agency fund during fiscal year 2010. The change in fund classification had the following effect on fund balances of the other governmental funds and net assets as they were previously reported:

	<u>General</u>	<u>Title II-A</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance at June 30, 2010	\$302,686	\$24,935	\$19,950	\$347,571
Change in Fund Classification	0	0	(12,049)	(12,049)
Adjusted Fund Balance at June 30, 2010	<u>\$302,686</u>	<u>\$24,935</u>	<u>\$7,901</u>	<u>\$335,522</u>

	<u>Governmental Activities</u>
Net Assets June 30, 2010	\$448,843
Change in Fund Classification	(12,049)
Adjusted Net Assets, June 30, 2010	<u>\$436,794</u>

## **Supplemental Information**

**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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Intergovernmental	\$0	\$0	\$749,851	(\$749,851)
Interest	0	0	542	(542)
Tuition and Fees	0	0	3,560,576	(3,560,576)
Rent	0	0	16,936	(16,936)
Gifts and Donations	0	0	882	(882)
Charges for Services	0	0	13,025	(13,025)
Miscellaneous	0	0	108,486	(108,486)
<i>Total Receipts</i>	<u>0</u>	<u>0</u>	<u>4,450,298</u>	<u>(4,450,298)</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	163,165	410,079	410,079	0
Special	856,338	862,366	862,366	0
Support Services:				
Pupils	869,729	1,017,596	1,017,596	0
Instructional Staff	1,011,735	1,085,702	1,085,702	0
Board of Education	32,435	29,758	29,758	0
Administration	410,879	425,690	425,690	0
Fiscal	187,045	220,679	220,679	0
Business	3,500	3,176	3,176	0
Operation and Maintenance of Plant	140,496	123,794	123,794	0
Pupil Transportation	346,480	363,489	363,489	0
Central	34,058	25,690	25,690	0
Operation of Non-Instructional Services	8,000	6,196	6,196	0
Extracurricular Activities	3,420	3,741	3,741	0
Debt Service:				
Principal	32,000	32,000	32,000	0
Interest and Fiscal Charges	66,000	65,393	65,393	0
<i>Total Disbursements</i>	<u>4,165,280</u>	<u>4,675,349</u>	<u>4,675,349</u>	<u>0</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(4,165,280)</u>	<u>(4,675,349)</u>	<u>(225,051)</u>	<u>4,450,298</u>
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Expenditures	0	1,458	1,458	0
Advances In	0	1,137	1,137	0
Advances Out	0	(4,045)	(4,045)	0
Other Financing Uses	(44,923)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(\$44,923)</u>	<u>(\$1,450)</u>	<u>(1,450)</u>	<u>\$0</u>
<i>Net Change in Fund Balance</i>			(226,501)	
<i>Fund Balance at Beginning of Year</i>			209,885	
<i>Prior Year Encumbrances Appropriated</i>			90,143	
<i>Fund Balance at End of Year</i>			<u>\$73,527</u>	

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
 Schedule of Receipts, Disbursements and  
 Changes in Fund Balance - Budget and Actual - Budget Basis  
 Title II-A Fund  
 For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Charges for Services	\$0	\$0	\$26,034	(\$26,034)
<b>Disbursements</b>				
Current:				
Instruction:				
Instructional Staff	\$36,418	\$17,176	\$17,176	\$0
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(\$36,418)</u>	<u>(\$17,176)</u>	<u>8,858</u>	<u>\$26,034</u>
<i>Net Change in Fund Balance</i>			8,858	
<i>Fund Balance at Beginning of Year</i>			13,471	
<i>Prior Year Encumbrances Appropriated</i>			11,464	
<i>Fund Balance at End of Year</i>			<u>\$33,793</u>	

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**

Notes to the Supplemental Information

For the Fiscal Year Ended June 30, 2011

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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 and Title II-A Funds are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances which are treated as cash disbursements (budgetary basis) rather than restricted, committed or assigned 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 and Title II-A Fund.

**Preble County Educational Service Center**

Notes to the Supplemental Information

For the Fiscal Year Ended June 30, 2011

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

Net Change in Fund Balance

	<u>General</u>	<u>Title II-A</u>
Modified Cash Basis	(\$137,345)	\$9,036
Unrecorded Cash FY 2010 - Revenue	2,824	0
Unrecorded Cash FY 2011 - Revenue	(21)	0
Unrecorded Cash FY 2010 - Expense	(166)	0
Unrecorded Cash FY 2011 - Expense	763	0
Adjustment for Encumbrances	(92,556)	(178)
Budget Basis	<u>(\$226,501)</u>	<u>\$8,858</u>



**PREBLE COUNTY EDUCATIONAL  
SERVICE CENTER**

**REPORT ON INTERNAL  
CONTROL AND COMPLIANCE**

**June 30, 2011**

# PREBLE COUNTY EDUCATIONAL SERVICE CENTER

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Report of Independent Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1/2
Schedule of Findings and Responses	3
Schedule of Prior Audit Findings	4

**REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education  
Preble County Educational Service Center  
Eaton, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Preble County Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 2011, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated December 20, 2012, wherein, we noted that the Educational Service Center prepared its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). It is also noted that the Educational Service Center adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during 2011. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of the Educational Service Center is responsible for establishing and maintaining effective 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 the purpose of expressing our opinion on the modified cash basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Educational Service Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Center's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

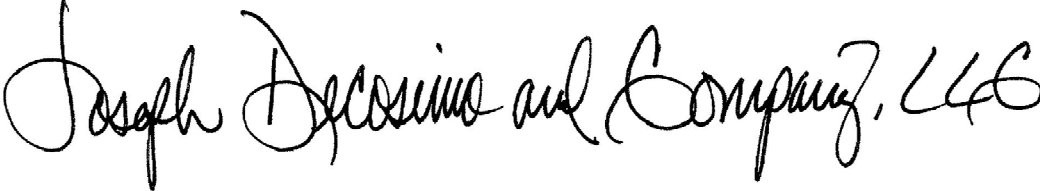
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Educational Service Center's modified cash basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2011-001.

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

This report is intended solely for the information and use of the Board of Education, management and others within the Educational Service Center and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Joseph Decossimo and Company, LLC". The signature is written in a cursive, flowing style.

Cincinnati, Ohio  
December 20, 2012

# PREBLE COUNTY EDUCATIONAL SERVICE CENTER

## SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2011

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### **Finding # 2011-001**

#### **Noncompliance**

##### **Criteria**

Ohio Revised Code, Section 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 public office. Ohio Administrative Code 117-2-03 further clarifies the requirements of Ohio Revised Code, Section 117.38.

Ohio Revised Code, Section 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.

##### **Condition**

For the fiscal year ended June 30, 2011, the Educational Service Center was not in compliance with the criteria and requirements listed above.

##### **Cause**

For the fiscal year ended June 30, 2011, 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.

##### **Effect**

The modified cash basis financial statements omit assets, liabilities, fund equities and disclosure that, while material, cannot be determined at this time.

##### **Context**

Pursuant to Ohio Revised Code, Section 117.38, the Educational Service Center can be fined and subject to various other administrative remedies for failure to file the required financial reports.

##### **Recommendation**

We recommend that the Educational Service Center prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America.

##### **Views of Responsible Officials and Planned Corrective Actions**

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 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.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

**Year Ended June 30, 2011**

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Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	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 2011-001.



# Dave Yost • Auditor of State

PREBLE COUNTY EDUCATIONAL SERVICE CENTER

PREBLE COUNTY

## CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 7, 2013