



Dave Yost • Auditor of State



**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Preble County Educational Service Center, Preble County, Ohio (the Educational Service Center), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Educational Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Educational Service Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Preble County Educational Service Center, Preble County, Ohio, as of June 30, 2016 and 2015, and the respective changes in modified cash financial position thereof for the years then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

Ohio Administrative Code § 117-2-03(B) requires the Educational Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the modified cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Other Matters**

*Supplemental Information*

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedules of Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual – Budget Basis for the General Fund presents additional analysis and is not a required part of the basic financial statements.

The schedules are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Other Information*

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2017, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 24, 2017

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016. 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 2016 are as follows:

- Programing was cut in a variety of areas due to the school districts served by the Educational Service Center reducing services.
- The General Fund balance was increased significantly during the fiscal year because of an increase in usage in classroom programs as well as programs being reorganized resulting in a decrease in disbursements.

**Using this Annual Financial Report**

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

*Report Components*

The Statement of Net Position 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.

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.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**Reporting the Educational Service Center as a Whole**

*Statement of Net Position and Statement of Activities – Modified Cash Basis*

The Statement of Net Position and the Statement of Activities reflect how the Educational Service Center did financially during fiscal year 2016 within the limitations of the modified cash basis of accounting. The Statement of Net Position presents the cash balances and investments of the governmental activities of the Educational Service Center at fiscal year-end. The Statement of Activities compares cash disbursements with program receipts for each governmental function. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Educational Service Center's general receipts.

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

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

*Fund Financial Statements*

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

*Governmental Funds*

Most of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end available for spending in future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

*Fiduciary Funds*

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

**The Educational Service Center as a Whole**

Recall that the Statement of Net Position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for fiscal year 2016 compared to fiscal year 2015:

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**Table 1  
Net Position**

	2016	2015	Change
<b>Assets:</b>			
Current and Other Assets	\$1,264,651	\$845,764	\$418,887
Capital Assets, Net	937,883	991,469	(53,586)
<b>Total Assets</b>	<b>2,202,534</b>	<b>1,837,233</b>	<b>365,301</b>
<b>Liabilities:</b>			
Long-Term Liabilities	1,030,000	1,070,000	(40,000)
<b>Net Position:</b>			
Net Investment in Capital Assets	(92,117)	(78,531)	(13,586)
Restricted	32,814	33,317	(503)
Unrestricted	1,231,837	812,447	419,390
<b>Total Net Position</b>	<b>\$1,172,534</b>	<b>\$767,233</b>	<b>\$405,301</b>

Current and other assets consist of the cash balance of the Educational Service Center at June 30, 2016. Equity in Pooled Cash and Cash Equivalents increased by \$418,887 which was a result of increases in classroom usages by the ESC's client school districts. Capital assets decreased due to current year depreciation.

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 2016 principal payment.

Overall, net position increased \$405,301. Net investments in capital assets decreased as depreciation was greater than the annual lease payment. Restricted net position consists of the remaining State and federal grant balances, which have restrictions on how the monies can be spent, and this amount decreased by \$503. Unrestricted net position represents General Fund monies available at June 30, 2016 to be spent for any purpose needed. Unrestricted net assets increased by \$419,390, bringing the June 30, 2016, to a healthy balance of \$1,231,837. This increase was the result of increases in classroom usages by the ESC's client school districts.

Table 2 shows the changes in net position for fiscal year 2016 compared to fiscal year 2015.

**Table 2  
Changes in Net Position**

	2016	2015	Change
<b>Receipts</b>			
<b>Program Receipts:</b>			
Charges for Services	\$4,177,124	\$4,109,527	\$67,597
Operating Grants and Contributions	74,645	168,624	(93,979)
<b>Total Program Receipts</b>	<b>4,251,769</b>	<b>4,278,151</b>	<b>(26,382)</b>
<b>General Receipts:</b>			
Grants and Entitlements not Restricted to Specific Programs	253,738	184,077	69,661
Interest	3,153	471	2,682
Gifts and Donations	1,217	2,270	(1,053)
Miscellaneous	53,861	38,473	15,388
<b>Total General Receipts</b>	<b>311,969</b>	<b>225,291</b>	<b>86,678</b>
<b>Total Receipts</b>	<b>4,563,738</b>	<b>4,503,442</b>	<b>60,296</b>

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**Table 2  
Changes in Net Position  
(Continued)**

	<u>2016</u>	<u>2015</u>	<u>Change</u>
<b>Program Disbursements:</b>			
<b>Instruction:</b>			
Regular	413,942	490,793	(76,851)
Special	1,518,869	1,439,348	79,521
<b>Support Services:</b>			
Pupils	1,077,987	1,023,603	54,384
Instructional Staff	70,930	373,172	(302,242)
Board of Education	22,003	20,335	1,668
Administration	331,195	403,223	(72,028)
Fiscal	188,711	164,860	23,851
Business	604	1,318	(714)
Operation and Maintenance of Plant	159,882	153,482	6,400
Pupil Transportation	287,162	338,157	(50,995)
Central	14,647	12,625	2,022
Operation of Non-Instructional Services	13,309	25,593	(12,284)
Extracurricular Activities	2,902	4,126	(1,224)
Interest and Fiscal Charges	56,294	58,345	(2,051)
<b>Total Disbursements</b>	<u>4,158,437</u>	<u>4,508,980</u>	<u>(\$350,543)</u>
<b>Change in Net Position</b>	405,301	(5,538)	
<b>Net Position at Beginning of Year</b>	<u>767,233</u>	<u>772,771</u>	
<b>Net Position at End of Year</b>	<u>\$1,172,534</u>	<u>\$767,233</u>	

**Governmental Activities**

Program receipts decreased \$26,382, with operating grants and contributions having the largest change from fiscal year 2015, decreasing by \$93,979. The decrease in operating grants and contributions is due to the end of the Teaching American History Grant that the Educational Service Center had received in prior fiscal years.

Overall disbursements decreased by \$350,543 compared to fiscal year 2015 disbursements. Disbursements can fluctuate drastically from fiscal year to fiscal year depending on what services are added and expended on or reduced. Disbursements decreased as the Teaching American History Grant ended during fiscal year 2015 as well as a reduction in services offered. Instructional Staff disbursements decreased because the Curriculum, Instruction, and Professional Development program was eliminated for fiscal year 2016 and the ESC client school districts no longer wanted to use this program. The ESC also realigned some of the programs and this resulted in a decrease in administration costs.

The decrease in programming offered by the ESC should have also decreased receipts, but this was not the case as charges for services increased by \$67,597. Other programs, specifically classroom program usage, increased which increased receipts.

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.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

The Educational Service Center's Funds

The Educational Service Center's funds are accounted for using the modified cash basis of accounting. The major fund for the Educational Service Center is the General Fund. The General fund accounted for 98 percent of fiscal year 2016 receipts and 98 percent of disbursements.

Fund balance of the General Fund increased by \$419,428. As school districts reduced services, the Educational Service Center was able to reduce costs to balance out the reduction in services provided and slightly increased the overall fund balance to \$1,232,020.

Capital Assets

At June 30, 2016, the Educational Service Center had \$937,883 invested in capital assets in the form of land, buildings, furniture, fixtures, and equipment, and vehicles. Overall capital assets decreased \$53,586 from June 30, 2015, with the majority of that decrease being from current fiscal year depreciation. For more information on capital assets, see Note 5 of the Basic Financial Statements.

**Debt Administration**

At June 30, 2016, the Educational Service Center had a lease-purchase agreement outstanding with the Columbus Regional Airport Authority in the amount of \$1,030,000. The lease-purchase agreement financed the building of a facility for the Educational Service Center. Principal payments made during the fiscal year amounted to \$40,000. 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 Kerry M. Borger, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at [kerry.borger@preblecountyesc.org](mailto:kerry.borger@preblecountyesc.org)

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**Preble County Educational Service Center**  
Statement of Net Position - Modified Cash Basis  
June 30, 2016

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,264,651
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	869,927
<i>Total Assets</i>	2,202,534
<b>Liabilities</b>	
Due Within One Year	43,000
Due In More Than One Year	987,000
<i>Total Liabilities</i>	1,030,000
<b>Net Position</b>	
Net Investment in Capital Assets	(92,117)
Restricted for Title II-A	32,631
Restricted for Unclaimed Monies	183
Unrestricted	1,231,837
<i>Total Net Position</i>	\$1,172,534

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, 2016

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$413,942	\$522,586	\$63,049	\$171,693
Special	1,518,869	1,903,522	0	384,653
Support Services:				
Pupils	1,077,987	1,112,024	7,996	42,033
Instructional Staff	70,930	26,935	0	(43,995)
Board of Education	22,003	0	0	(22,003)
Administration	331,195	196,961	0	(134,234)
Fiscal	188,711	729	0	(187,982)
Business	604	0	0	(604)
Operation and Maintenance of Plant	159,882	76,477	0	(83,405)
Pupil Transportation	287,162	298,018	0	10,856
Central	14,647	5,802	3,600	(5,245)
Operation of Non-Instructional Services	13,309	21,261	0	7,952
Extracurricular Activities	2,902	12,809	0	9,907
Interest and Fiscal Charges	56,294	0	0	(56,294)
<b>Totals</b>	<b>\$4,158,437</b>	<b>\$4,177,124</b>	<b>\$74,645</b>	<b>93,332</b>
<b>General Receipts</b>				
Grants and Entitlements not Restricted to Specific Programs				253,738
Interest				3,153
Gifts and Donations				1,217
Miscellaneous				53,861
<i>Total General Receipts</i>				<u>311,969</u>
<i>Change in Net Position</i>				405,301
<i>Net Position at Beginning of Year</i>				<u>767,233</u>
<i>Net Position at End of Year</i>				<u><u>\$1,172,534</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, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,231,837	\$32,631	\$1,264,468
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	183	0	183
<i>Total Assets</i>	<u>1,232,020</u>	<u>32,631</u>	<u>1,264,651</u>
<b>Fund Balances</b>			
Nonspendable	183	0	183
Restricted	0	32,631	32,631
Committed	24,965	0	24,965
Assigned	96,707	0	96,707
Unassigned	1,110,165	0	1,110,165
<i>Total Fund Balances</i>	<u><u>\$1,232,020</u></u>	<u><u>\$32,631</u></u>	<u><u>\$1,264,651</u></u>

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Reconciliation of Total Governmental Fund Balances to  
Net Position of Governmental Activities - Modified Cash Basis  
June 30, 2016

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**Total Governmental Fund Balance** \$1,264,651

*Amounts reported for governmental activities in the  
statement of net position 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	59,844
Vehicles	435,666
Accumulated Depreciation	<u>(1,047,192)</u>

Total Capital Assets 937,883

Capital leases are not due and payable in the current period and, therefore, are not reported in the funds.

(1,030,000)

*Net Position of Governmental Activities*

\$1,172,534

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, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Receipts</b>			
Intergovernmental	\$253,738	\$74,645	\$328,383
Interest	3,153	0	3,153
Tuition and Fees	3,843,518	0	3,843,518
Rent	32,500	0	32,500
Gifts and Donations	1,217	0	1,217
Charges for Services	301,106	0	301,106
Miscellaneous	53,861	0	53,861
<i>Total Receipts</i>	<u>4,489,093</u>	<u>74,645</u>	<u>4,563,738</u>
<b>Disbursements</b>			
Current:			
Instruction:			
Regular	341,843	63,528	405,371
Special	1,518,869	0	1,518,869
Support Services:			
Pupils	1,066,893	8,058	1,074,951
Instructional Staff	59,324	0	59,324
Board of Education	22,003	0	22,003
Administration	312,304	0	312,304
Fiscal	186,551	0	186,551
Business	604	0	604
Operation and Maintenance of Plant	157,973	0	157,973
Pupil Transportation	280,730	0	280,730
Central	11,047	3,600	14,647
Operation of Non-Instructional Services	12,328	0	12,328
Extracurricular Activities	2,902	0	2,902
Debt Service:			
Principal	40,000	0	40,000
Interest and Fiscal Charges	56,294	0	56,294
<i>Total Disbursements</i>	<u>4,069,665</u>	<u>75,186</u>	<u>4,144,851</u>
<i>Net Change in Fund Balances</i>	419,428	(541)	418,887
<i>Fund Balances at Beginning of Year</i>	<u>812,592</u>	<u>33,172</u>	<u>845,764</u>
<i>Fund Balances at End of Year</i>	<u><u>\$1,232,020</u></u>	<u><u>\$32,631</u></u>	<u><u>\$1,264,651</u></u>

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
 Reconciliation of the Statement of Cash Receipts, Disbursements and Changes  
 in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis  
 For the Fiscal Year Ended June 30, 2016

**Net Change in Fund Balances - Total Governmental Funds** \$418,887

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

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

Capital Outlay	2,958
Depreciation Disbursement	(56,544)
	(53,586)

Excess of Depreciation over Capital Outlay	(53,586)
--	----------

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 position.

40,000
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*Change in Net Position of Governmental Activities*

\$405,301
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See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Statement of Fiduciary Net Position - Modified Cash Basis  
Fiduciary Funds  
June 30, 2016

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	Private Purpose Trust Fund	Agency Funds
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,259	\$49,487
<b>Liabilities</b>		
Undistributed Monies	0	\$49,487
<b>Net Position</b>		
Held in Trust for Scholarships	\$1,259	

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Statement of Changes in Fiduciary Net Position - Modified Cash Basis  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2016

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	<u>Private Purpose Trust Fund</u>
<i>Net Position at Beginning of Year</i>	<u>\$1,259</u>
<i>Net Position at End of Year</i>	<u><u>\$1,259</u></u>

See Accompanying Notes to the Basic Financial Statements

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY**

The Preble County ESC (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, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. 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 presented in Notes 12 and 13 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Southwest Ohio Computer Association
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association
- Preble County Professional Development Consortium

Insurance Purchasing Pool:

- Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan
- Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program

Shared Risk Pool:

- Preble County Schools Regional Council of Governments

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The 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. The more significant of the Educational Service Center's accounting policies are described below.

**A. Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

**1. Government-wide Financial Statements**

The Statement of Net Position 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 and those that are considered business-type. The Educational Service Center; however, does not have any activities that are presented as business-type. Governmental activities generally are financed through intergovernmental receipts or other non-exchange transactions.

The Statement of Net Position 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.

**2. Fund Financial Statements**

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities into 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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**1. Governmental Funds**

The Educational Service Center classifies funds financed primarily from intergovernmental receipts (e.g., grants) and other non-exchange transactions as governmental funds. The following is the Educational Service Center's major governmental fund:

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

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

**2. Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. 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 that accounts for a college scholarship program for students. 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 disbursements and liabilities) are not recorded in these financial statements.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Cash and Cash Equivalents**

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

During fiscal year 2016, the Educational Service Center's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office that 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 net asset value per share, which is the price the investment could be sold for on June 30, 2016.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of investment earnings. Interest receipts credited to the General Fund during fiscal year 2016 were \$3,153, which includes \$193 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. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the General Fund represent cash and cash equivalents held as unclaimed monies.

**F. Inventory and Prepaid Items**

The Educational Service Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**G. 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 Position but are not reported on the fund financial statements.

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.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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:

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

**H. Accumulated Leave**

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 modified cash basis of accounting used by the Educational Service Center.

**I. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**J. 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.

**K. Fund Balance**

Fund balance is divided into five classifications 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 governmental funds. The classifications are as follows:

**Non-spendable** – The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form or they are 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. Non-spendable fund balance for the Educational Service Center is unclaimed monies.

**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  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**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 the highest level of formal action (resolution) of the Educational Service Center Board of Education. Those committed amounts cannot be used for any other purpose unless the Educational Service Center Board of Education 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 of Education. The Treasurer has been given authority to assign amounts for these purposes by the Educational Service Center Board of Education.

**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 fund balance.

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.

**L. Net Position**

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for federal and State grants restricted to cash disbursement for specified purposes.

The Educational Service Center applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net positions are available.

**M. Estimates**

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

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**3. STATE AND LOCAL SCHOOL DISTRICT FUNDING**

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city, local, and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's city, local, and exempted village school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$26.95 times the average daily membership of the Educational Service Center. This amount is then multiplied by a proration factor that is updated annually. 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.

**4. DEPOSITS AND INVESTMENTS**

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

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

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

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

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, and Government National Mortgage 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 and, with certain limitations, bonds and other obligations of political subdivisions 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 and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances, if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

**A. Investments**

As of June 30, 2016, the Educational Service Center's only investment was \$1,215,647 with STAROhio. The average maturity of STAROhio at June 30, 2016 was 48.6 days.

**B. 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.

**C. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Standard and Poor's rated the Educational Service Center's investment in STAR Ohio AAAM. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that addresses credit risk.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**5. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2016 was as follows:

	<b>Balance at 6/30/2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at 6/30/2016</b>
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$67,956			\$67,956
Capital Assets Being Depreciated:				
Buildings	1,421,609			1,421,609
Furniture, Fixtures, and Equipment	89,305	\$2,958	(\$32,419)	59,844
Vehicles	435,666			435,666
Total Capital Assets Being Depreciated	<u>1,946,580</u>	<u>2,958</u>	<u>(32,419)</u>	<u>1,917,119</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	(521,528)	(47,373)		(568,901)
Furniture, Fixtures, and Equipment	(72,305)	(2,739)	32,419	(42,625)
Vehicles	(429,234)	(6,432)		(435,666)
Total Accumulated Depreciation	<u>(1,023,067)</u>	<u>(56,544)</u>	<u>32,419</u>	<u>(1,047,192)</u>
Total Capital Assets Being Depreciated, Net	<u>923,513</u>	<u>(53,586)</u>		<u>869,927</u>
Total Capital Assets, Net	<u>\$991,469</u>	<u>(\$53,586)</u>	<u>\$0</u>	<u>\$937,883</u>

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

<b>Instruction:</b>	
Regular	\$8,571
<b>Support Services:</b>	
Pupils	3,036
Instructional Staff	11,606
Administration	21,849
Fiscal	2,160
Operation and Maintenance of Plant	1,909
Pupil Transportation	6,432
Operation of Non-Instructional Services	981
Total Depreciation	<u>\$56,544</u>

**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 2016, the Educational Service Center contracted with the Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program (Note 12) 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.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

For fiscal year 2016, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 12). 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.

**C. Medical Benefits**

For fiscal year 2016, the Educational Service Center participated in the Preble County Schools Regional Council of Governments (Note 13), a shared risk pool consisting of five local School Districts and the Educational Service Center (the Council). 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.

**7. DEFINED BENEFIT PENSION PLANS**

**A. Net Pension Liability**

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the Educational Service Center's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Educational Service Center's obligation for this liability to annually required payments. The Educational Service Center cannot control benefit terms or the manner in which pensions are financed; however, the Educational Service Center does receive the benefit of employees' services in exchange for compensation including pension.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

**B. Plan Description – School Employees Retirement System (SERS)**

**Plan Description** – Educational Service Center non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	<b>Eligible to Retire on or before August 1, 2017 *</b>	<b>Eligible to Retire on or after August 1, 2017</b>
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

**Funding Policy** – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

The Educational Service Center's contractually required contribution to SERS was \$124,718 for fiscal year 2016.

**C. Plan Description – State Teachers Retirement System (STRS)**

**Plan Description** – Educational Service Center licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site 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. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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**7. DEFINED BENEFIT PENSION PLANS (Continued)**

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was \$250,209 for fiscal year 2016.

**D. Net Pension Liability**

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.03200600%	0.01788737%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.02959100%</u>	<u>0.01712980%</u>	
Change in Proportionate Share	<u>-0.00241500%</u>	<u>-0.00075757%</u>	
Proportionate Share of the Net Pension Liability	\$1,688,492	\$4,734,175	\$6,422,667

**E. Actuarial Assumptions – SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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**7. DEFINED BENEFIT PENSION PLANS (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**Discount Rate** – The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Educational Service Center’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
Educational Service Center’s proportionate share of the net pension liability	\$2,341,330	\$1,688,492	\$1,138,747

**Changes between Measurement Date and Report Date** – In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the District’s net pension liability is expected to be significant.

**F. Actuarial Assumptions – STRS**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above. Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops best estimates for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

\* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – The following table presents the Educational Service Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Educational Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Educational Service Center's proportionate share of the net pension liability	\$6,576,127	\$4,734,175	\$3,176,531

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**8. POST-EMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

**Health Care Plan Description** – The Educational Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. 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.

**Funding Policy** – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the Educational Service Center's surcharge obligation was \$11,161.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$22,740, and \$23,231 respectively. The full amount has been contributed for all three fiscal years.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**8. POST-EMPLOYMENT BENEFITS (Continued)**

**B. State Teachers Retirement System**

**Plan Description** – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary 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 Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$18,339 respectively. The full amount has been contributed for 2016, 2015 and 2014.

**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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**9. EMPLOYEE BENEFITS (Continued)**

**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 is administered by American Fidelity Assurance Company.

**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.

The agreement is recorded on the Statement of Net Position as “Due Within One Year” and “Due In More Than One Year.” Principal payments made during fiscal year 2016 totaled \$40,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$1,030,000.

The asset acquired through capital lease is as follows:

	<b>Asset Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Building	\$1,421,609	\$568,901	\$852,708

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, 2016:

<b>Fiscal Year Ending June 30,</b>	<b>Long-Term Obligations</b>
2017	\$97,140
2018	96,828
2019	97,374
2020	95,808
2021	96,132
2022-2026	479,655
2027-2031	476,806
2032	94,531
Total minimum lease payments	1,534,274
Less: amount representing interest and charges	(504,274)
Present value of minimum lease payments	\$1,030,000

**11. LONG-TERM OBLIGATIONS**

The only long-term obligation the Educational Service Center has is a capital lease. During fiscal year 2016, the Educational Service Center made \$40,000 in principal payments, which reduced the balance of the lease from \$1,070,000 at June 30, 2015 to \$1,030,000 at June 30, 2016. The amount due within one year is \$43,000. The capital lease will be paid from the General Fund.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL**

**A. Jointly Governed Organizations**

*Southwest Ohio Computer Association*

The Educational Service Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts and educational service centers within the boundaries of Butler, Hamilton, 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 Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the board. The Educational Service Center paid SWOCA \$11,792 for services provided during the fiscal year. Financial information can be obtained from Donna Davis Norris, Executive Director of SWOCA, at 3611 Hamilton-Middletown Road, Hamilton, Ohio 45011.

*Southwestern Ohio Educational Purchasing Council*

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of over 100 school districts and educational service centers in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services, including dental insurance, commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

The Council exercises total control over the operations of the Council including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the council. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the General Fund. During fiscal year 2016, the Educational Service Center did not make any payments to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

*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. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the board.

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**12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)**

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net position shall be distributed to the federal government, or to a state or local government, for a public purpose. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the board. Payments to SOITA are made from the General Fund. During fiscal year 2016, 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, Frank DePalma, who serves as Interim Executive Director, at 1205 East Fifth Street, Dayton, Ohio 45402.

*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 Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the board. The Educational Service Center paid PCPDC \$6,532 for services provided during the fiscal year. Financial information can be obtained from Kerry M. Borger, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at [kerry.borger@preblecountyeducational-service-center.org](mailto:kerry.borger@preblecountyeducational-service-center.org).

**B. Insurance Purchasing Pools**

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

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven-member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by majority vote of all member school districts. The Chief Administrator of 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.

*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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**13. 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 Kerry M. Borger, who serves as Fiscal Officer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

**14. FUND BALANCES**

Fund balance is classified as non-spendable, 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 governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total</u>
<b>Non-spendable:</b>			
Unclaimed Monies	\$183		\$183
<b>Restricted for:</b>			
Title II-A		\$32,631	32,631
<b>Committed to:</b>			
Legal and Other Contracts	24,965		24,965
<b>Assigned to:</b>			
Subsequent Year's Appropriations	62,263		62,263
Purchases on Order	34,444		34,444
	<u>96,707</u>		<u>96,707</u>
Unassigned	1,110,165		1,110,165
Total Fund Balances	<u>\$1,232,020</u>	<u>\$32,631</u>	<u>\$1,264,651</u>

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**15. SIGNIFICANT COMMITMENTS**

**Encumbrances**

Encumbrances are commitments related to unperformed contracts for goods and services. Encumbrances accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	<u>\$59,409</u>
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**16. 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, 2016.

**B. State Foundation**

Educational Service Center Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Educational Service Center, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the Educational Service Center; therefore, the financial statement impact is not determinable at this time. ODE and management believe this may result in either a receivable to or a liability of the Educational Service Center.

**C. Litigation**

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

**17. 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 position/fund balances, and disclosures that, while material, cannot be determined at this time. The Educational Service Center can be fined and various other administrative remedies may be taken against the Educational Service Center.

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**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, 2016

	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Receipts</b>				
Intergovernmental	\$0	\$0	\$253,738	(\$253,738)
Interest	0	0	3,153	(3,153)
Tuition and Fees	0	0	3,843,518	(3,843,518)
Rent	0	0	32,500	(32,500)
Gifts and Donations	0	0	1,217	(1,217)
Charges for Services	0	0	26,806	(26,806)
Miscellaneous	0	0	321,103	(321,103)
<i>Total Receipts</i>	<u>0</u>	<u>0</u>	<u>4,482,035</u>	<u>(4,482,035)</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	163,447	359,126	346,863	12,263
Special	1,518,261	1,543,735	1,519,854	23,881
Support Services:				
Pupils	1,000,423	1,094,339	1,070,603	23,736
Instructional Staff	87,993	65,023	59,651	5,372
Board of Education	27,548	24,290	23,481	809
Administration	343,976	330,784	318,427	12,357
Fiscal	180,319	200,966	196,125	4,841
Business	2,500	2,100	804	1,296
Operation and Maintenance of Plant	178,176	173,348	166,926	6,422
Pupil Transportation	325,858	305,266	301,217	4,049
Central	20,416	20,209	13,599	6,610
Operation of Non-Instructional Services	19,682	21,582	12,328	9,254
Extracurricular Activities	4,958	4,730	2,902	1,828
Debt Service:				
Principal	40,000	40,000	40,000	0
Interest and Fiscal Charges	56,307	56,307	56,294	13
<i>Total Disbursements</i>	<u>3,969,864</u>	<u>4,241,805</u>	<u>4,129,074</u>	<u>112,731</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(3,969,864)</u>	<u>(4,241,805)</u>	<u>352,961</u>	<u>4,594,766</u>
<b>Other Financing Sources</b>				
Refund of Prior Year Expenditures	<u>\$5,000</u>	<u>\$5,000</u>	7,058	\$2,058
<i>Net Change in Fund Balance</i>			360,019	
<i>Fund Balance at Beginning of Year</i>			747,478	
<i>Prior Year Encumbrances Appropriated</i>			<u>64,969</u>	
<i>Fund Balance at End of Year</i>			<u>\$1,172,466</u>	

See Accompanying Notes to the Supplementary Information

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**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE SUPPLEMENTAL INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**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 Board of Education's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board of Education. The Board does not approve estimated resources. The level of control has been established by the Board of Education 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 Board of Education during the fiscal year.

**Note 2 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Schedule of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances, which are treated as cash disbursements (budgetary basis) rather than 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 statement for the General Fund.

<b>Net Change in Fund Balance</b>	
	<b>General</b>
Modified Cash Basis	\$419,428
Adjustment for Encumbrances	(59,409)
Budget Basis	<u>\$360,019</u>

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**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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, 2015. 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 2015 are as follows:

- Programing was cut in a variety of areas due to the school districts served by the Educational Service Center reducing services.
- The General Fund ended with a healthy fund balance and the goal of increasing the fund balance has shifted to a goal of maintaining the fund balance.

**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 Position 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.

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.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**Reporting the Educational Service Center as a Whole**

*Statement of Net Position and Statement of Activities – Modified Cash Basis*

The Statement of Net Position and the Statement of Activities reflect how the Educational Service Center did financially during fiscal year 2015 within the limitations of the modified cash basis of accounting. The Statement of Net Position presents the cash balances and investments of the governmental activities of the Educational Service Center at fiscal year-end. The Statement of Activities compares cash disbursements with program receipts for each governmental function. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Educational Service Center's general receipts.

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

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

*Fund Financial Statements*

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

*Governmental Funds*

Most of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end available for spending in future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

*Fiduciary Funds*

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

**The Educational Service Center as a Whole**

Recall that the Statement of Net Position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for fiscal year 2015 compared to fiscal year 2014:

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**Table 1  
Net Position**

	2015	2014	Change
<b>Assets:</b>			
Current and Other Assets	\$845,764	\$826,718	\$19,046
Capital Assets, Net	991,469	1,055,053	(63,584)
Total Assets	<u>1,837,233</u>	<u>1,881,771</u>	<u>(44,538)</u>
<b>Liabilities:</b>			
Long-Term Liabilities	<u>1,070,000</u>	<u>1,109,000</u>	<u>(39,000)</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	(78,531)	(53,947)	(24,584)
Restricted	33,317	39,484	(6,167)
Unrestricted	812,447	787,234	25,213
Total Net Position	<u>\$767,233</u>	<u>\$772,771</u>	<u>(\$5,538)</u>

Current and other assets consist of the cash balance of the Educational Service Center at June 30, 2015. Equity in Pooled Cash and Cash Equivalents increase slightly by \$19,046. Capital assets decreased due to current year depreciation.

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 2015 principal payment.

Overall, net position decreased \$5,538, of which \$24,584 was a decrease in net investment in capital assets. This was due to a decrease in capital assets, net of depreciation, offset by a decrease in long-term liabilities.

Restricted net position consists of the remaining State and federal grant balances, which have restrictions on how the monies can be spent, and this amount decreased by \$6,167. Unrestricted net position represents General Fund monies available at June 30, 2015 to be spent for any purpose needed. Unrestricted net assets increased by \$25,213, essentially a balanced budget, bringing the June 30, 2015, to a healthy balance of \$812,447. This amount is 18 percent of total disbursements during fiscal year 2015. The Educational Service Center has over two months of operating cash in the General Fund carryover.

Table 2 shows the changes in net position for fiscal year 2015 compared to fiscal year 2014.

**Table 2  
Changes in Net Position**

	2015	2014	Change
<b>Receipts</b>			
<b>Program Receipts:</b>			
Charges for Services	\$4,109,527	\$4,445,760	(\$336,233)
Operating Grants and Contributions	168,624	581,551	(412,927)
Total Program Receipts	<u>4,278,151</u>	<u>5,027,311</u>	<u>(749,160)</u>
<b>General Receipts:</b>			
Grants and Entitlements not Restricted to Specific Programs	184,077	276,984	(92,907)
Interest	471	227	244
Gifts and Donations	2,270	1,841	429
Miscellaneous	38,473	27,326	11,147
Total General Receipts	<u>225,291</u>	<u>306,378</u>	<u>(81,087)</u>
Total Receipts	<u>4,503,442</u>	<u>5,333,689</u>	<u>(830,247)</u>

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**Table 2  
Changes in Net Position  
(Continued)**

	<u>2015</u>	<u>2014</u>	<u>Change</u>
<b>Program Disbursements:</b>			
<b>Instruction:</b>			
Regular	490,793	542,654	(51,861)
Special	1,439,348	1,474,403	(35,055)
<b>Support Services:</b>			
Pupils	1,023,603	1,049,454	(25,851)
Instructional Staff	373,172	485,518	(112,346)
Board of Education	20,335	25,134	(4,799)
Administration	403,223	651,663	(248,440)
Fiscal	164,860	172,639	(7,779)
Business	1,318	3,078	(1,760)
Operation and Maintenance of Plant	153,482	123,935	29,547
Pupil Transportation	338,157	402,200	(64,043)
Central	12,625	17,733	(5,108)
Operation of Non-Instructional Services	25,593	981	24,612
Extracurricular Activities	4,126	3,031	1,095
Interest and Fiscal Charges	58,345	60,292	(1,947)
Total Disbursements	<u>4,508,980</u>	<u>5,012,715</u>	<u>(\$503,735)</u>
Change in Net Position	(5,538)	320,974	
Net Position at Beginning of Year	<u>772,771</u>	<u>451,797</u>	
Net Position at End of Year	<u>\$767,233</u>	<u>\$772,771</u>	

**Governmental Activities**

Program receipts decreased \$749,160, with operating grants and contributions having the largest change from fiscal year 2014, decreasing by \$412,927. The decrease in operating grants and contributions is due to the end of the Teaching American History Grant that the Educational Service Center had received in prior years as well as the Early Literacy and Reading Readiness State Grant. The Teaching American History Grant was a federal grant that ended in September of 2014 and the Early Literacy and Reading Readiness Grant was a one year State Grant. Charges for Services decreased \$336,233 due to the decrease in services provided to school districts, particularly curriculum, transportation, speech and alternative school.

Overall disbursements decreased by \$503,735 compared to fiscal year 2014 disbursements. Disbursements can fluctuate drastically from fiscal year to fiscal year depending on what services are added and expended on or reduced. Disbursements decreased as the Teaching American History Grant ended during the fiscal year, as well as a reduction in services provided to school districts. As school districts reduce services, the Educational Service Center reduces costs to offset the reduction in receipts.

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.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**The Educational Service Center's Funds**

The Educational Service Center's funds are accounted for using the modified cash basis of accounting. The major fund for the Educational Service Center is the General Fund. The General fund accounted for 98 percent of fiscal year 2015 receipts and 98 percent of disbursements.

Fund balance of the General Fund increased by a modest \$25,228. As school districts reduced services, the Educational Service Center was able to reduce costs to balance out the reduction in services provided and slightly increased the overall fund balance to \$812,592.

**Capital Assets**

At June 30, 2015, the Educational Service Center had \$991,469 invested in capital assets in the form of land, buildings, furniture, fixtures, and equipment, and vehicles. Overall capital assets decreased \$63,584 from June 30, 2014, with the majority of that decrease being from current fiscal year depreciation. For more information on capital assets, see Note 5 of the Basic Financial Statements.

**Debt Administration**

At June 30, 2015, the Educational Service Center had a lease-purchase agreement outstanding with the Columbus Regional Airport Authority in the amount of \$1,070,000. The lease-purchase agreement financed the building of a facility for the Educational Service Center. Principal payments made during the fiscal year amounted to \$39,000. 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 Kerry M. Borger, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at [kerry.borger@preblecountyesc.org](mailto:kerry.borger@preblecountyesc.org).

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**Preble County Educational Service Center**  
Statement of Net Position - Modified Cash Basis  
June 30, 2015

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$845,764
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	923,513
<i>Total Assets</i>	1,837,233
<b>Liabilities</b>	
Due Within One Year	40,000
Due In More Than One Year	1,030,000
<i>Total Liabilities</i>	1,070,000
<b>Net Position</b>	
Net Investment in Capital Assets	(78,531)
Restricted for Title II-A	32,632
Restricted for Miscellaneous State Grants	540
Restricted for Other Purposes	145
Unrestricted	812,447
<i>Total Net Position</i>	\$767,233

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, 2015

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$490,793	\$573,886	\$60,305	\$143,398
Special	1,439,348	2,103,283	0	663,935
Support Services:				
Pupils	1,023,603	899,348	18,797	(105,458)
Instructional Staff	373,172	132,853	22,505	(217,814)
Board of Education	20,335	0	0	(20,335)
Administration	403,223	37,421	63,417	(302,385)
Fiscal	164,860	0	0	(164,860)
Business	1,318	0	0	(1,318)
Operation and Maintenance of Plant	153,482	33,115	0	(120,367)
Pupil Transportation	338,157	329,621	0	(8,536)
Central	12,625	0	3,600	(9,025)
Operation of Non-Instructional Services	25,593	0	0	(25,593)
Extracurricular Activities	4,126	0	0	(4,126)
Interest and Fiscal Charges	58,345	0	0	(58,345)
<i>Totals</i>	\$4,508,980	\$4,109,527	\$168,624	(230,829)
<b>General Receipts</b>				
Grants and Entitlements not Restricted to Specific Programs				184,077
Interest				471
Gifts and Donations				2,270
Miscellaneous				38,473
<i>Total General Receipts</i>				225,291
<i>Change in Net Position</i>				(5,538)
<i>Net Position at Beginning of Year</i>				772,771
<i>Net Position at End of Year</i>				\$767,233

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, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$812,592	\$33,172	\$845,764
<b>Fund Balances</b>			
Nonspendable	\$145	\$0	\$145
Restricted	0	33,172	33,172
Committed	26,784	0	26,784
Assigned	38,184	0	38,184
Unassigned	747,479	0	747,479
<i>Total Fund Balances</i>	\$812,592	\$33,172	\$845,764

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities - Modified Cash Basis  
 June 30, 2015

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<b>Total Governmental Fund Balance</b>	<b>\$845,764</b>
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*Amounts reported for governmental activities in the statement of net position 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	89,305
Vehicles	435,666
Accumulated Depreciation	(1,023,067)

Total Capital Assets	991,469
----------------------	---------

Capital leases are not due and payable in the current period and, therefore, are not reported in the funds.	(1,070,000)
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<i>Net Position of Governmental Activities</i>	<b>\$767,233</b>
--	------------------

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, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Receipts</b>			
Intergovernmental	\$248,975	\$103,726	\$352,701
Interest	471	0	471
Tuition and Fees	3,894,875	0	3,894,875
Rent	33,115	0	33,115
Gifts and Donations	2,270	0	2,270
Charges for Services	181,537	0	181,537
Miscellaneous	38,118	355	38,473
<i>Total Receipts</i>	<u>4,399,361</u>	<u>104,081</u>	<u>4,503,442</u>
<b>Disbursements</b>			
Current:			
Instruction:			
Regular	428,067	54,155	482,222
Special	1,439,348	0	1,439,348
Support Services:			
Pupils	1,001,823	18,450	1,020,273
Instructional Staff	333,557	27,571	361,128
Board of Education	20,335	0	20,335
Administration	375,010	6,487	381,497
Fiscal	162,700	0	162,700
Business	1,318	0	1,318
Operation and Maintenance of Plant	151,573	0	151,573
Pupil Transportation	325,294	0	325,294
Central	9,025	3,600	12,625
Operation of Non-Instructional Services	24,612	0	24,612
Extracurricular Activities	4,126	0	4,126
Debt Service:			
Principal	39,000	0	39,000
Interest and Fiscal Charges	58,345	0	58,345
<i>Total Disbursements</i>	<u>4,374,133</u>	<u>110,263</u>	<u>4,484,396</u>
<i>Net Change in Fund Balances</i>	25,228	(6,182)	19,046
<i>Fund Balances at Beginning of Year</i>	<u>787,364</u>	<u>39,354</u>	<u>826,718</u>
<i>Fund Balances at End of Year</i>	<u><u>\$812,592</u></u>	<u><u>\$33,172</u></u>	<u><u>\$845,764</u></u>

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
 Reconciliation of the Statement of Cash Receipts, Disbursements and Changes  
 in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis  
 For the Fiscal Year Ended June 30, 2015

**Net Change in Fund Balances - Total Governmental Funds** \$19,046

*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 (63,227)

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 position and offset against the proceeds from the sale of capital assets resulting in a loss on the disposal of capital assets in the statement of activities.

Loss on Disposal of Capital Assets (357)

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 position.

39,000

*Change in Net Position of Governmental Activities*

(\$5,538)

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Statement of Fiduciary Net Position - Modified Cash Basis  
Fiduciary Funds  
June 30, 2015

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	Private Purpose Trust Fund	Agency Funds
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,259	\$33,620
<b>Liabilities</b>		
Undistributed Monies	0	\$33,620
<b>Net Position</b>		
Held in Trust for Scholarships	\$1,259	

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Statement of Changes in Fiduciary Net Position - Modified Cash Basis  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2015

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	Private Purpose Trust Fund
<b>Additions</b>	
Gifts and Donations	\$180
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	500
<i>Change in Net Position</i>	(320)
<i>Net Position at Beginning of Year</i>	1,579
<i>Net Position at End of Year</i>	\$1,259

See Accompanying Notes to the Basic Financial Statements

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY**

The Preble County ESC (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, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. 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 presented in Notes 12 and 13 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Southwest Ohio Computer Association
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association
- Preble County Professional Development Consortium

Insurance Purchasing Pool:

- Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan
- Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program

Shared Risk Pool:

- Preble County Schools Regional Council of Governments

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The 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. The more significant of the Educational Service Center's accounting policies are described below.

**A. Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

**1. Government-wide Financial Statements**

The Statement of Net Position 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 and those that are considered business-type. The Educational Service Center, however, does not have any activities that are presented as business-type. Governmental activities generally are financed through intergovernmental receipts or other non-exchange transactions.

The Statement of Net Position 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.

**2. Fund Financial Statements**

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities into 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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**1. Governmental Funds**

The Educational Service Center classifies funds financed primarily from intergovernmental receipts (e.g., grants) and other non-exchange transactions as governmental funds. The following is the Educational Service Center's major governmental fund:

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

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

**2. Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. 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 that accounts for a college scholarship program for students. 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 disbursements and liabilities) are not recorded in these financial statements.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Cash and Cash Equivalents**

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

During fiscal year 2015, the Educational Service Center's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office that 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 net asset value per share, which is the price the investment could be sold for on June 30, 2015.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of investment earnings. Interest receipts credited to the General Fund during fiscal year 2015 were \$471, which includes \$36 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. Inventory and Prepaid Items**

The Educational Service Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**F. 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 Position but are not reported on the fund financial statements.

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:

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**G. Accumulated Leave**

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 modified cash basis of accounting used by the Educational Service Center.

**H. Pensions**

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**I. 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.

**J. Fund Balance**

Fund balance is divided into five classifications 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 governmental funds. The classifications are as follows:

**Non-spendable** – The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form or they are 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. Non-spendable fund balance for the Educational Service Center is unclaimed monies.

**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.

**Committed** – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level of formal action (resolution) of the Educational Service Center Board of Education. Those committed amounts cannot be used for any other purpose unless the Educational Service Center Board of Education 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.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 of Education. The Treasurer has been given authority to assign amounts for these purposes by the Educational Service Center Board of Education.

**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 fund balance.

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.

**K. Net Position**

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for federal and State grants restricted to cash disbursement for specified purposes.

The Educational Service Center applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net positions are available.

**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.

**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  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**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 \$26.83 times the average daily membership of the Educational Service Center. This amount is then multiplied by a proration factor that is updated annually. 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.

**4. DEPOSITS AND INVESTMENTS**

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

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

4. Bonds and other obligations of the State of Ohio or Ohio Local Governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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.

**A. Investments**

As of June 30, 2015, the Educational Service Center's only investment was \$826,708 with STAROhio. The average maturity of STAROhio at June 30, 2015 was 53.4 days.

**B. 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.

**C. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Standard and Poor's rated the Educational Service Center's investment in STAR Ohio AAAM. 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**5. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2015 was as follows:

	<b>Balance at 6/30/2014</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at 6/30/2015</b>
<b>Governmental Activities:</b>				
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$67,956			\$67,956
<b>Capital Assets Being Depreciated:</b>				
Buildings	1,421,609			1,421,609
Furniture, Fixtures, and Equipment	95,811		(\$6,506)	89,305
Vehicles	497,405		(61,739)	435,666
Total Capital Assets Being Depreciated	<u>2,014,825</u>		<u>(68,245)</u>	<u>1,946,580</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	(474,155)	(47,373)		(521,528)
Furniture, Fixtures, and Equipment	(75,463)	(2,991)	6,149	(72,305)
Vehicles	(478,110)	(12,863)	61,739	(429,234)
Total Accumulated Depreciation	<u>(1,027,728)</u>	<u>(63,227) *</u>	<u>67,888</u>	<u>(1,023,067)</u>
Total Capital Assets Being Depreciated, Net	<u>987,097</u>	<u>(63,227)</u>	<u>(357)</u>	<u>923,513</u>
Total Capital Assets, Net	<u>\$1,055,053</u>	<u>(\$63,227)</u>	<u>(\$357)</u>	<u>\$991,469</u>

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

<b>Instruction:</b>	
Regular	\$8,571
<b>Support Services:</b>	
Pupils	3,216
Instructional Staff	11,801
Administration	21,726
Fiscal	2,160
Operation and Maintenance of Plant	1,909
Pupil Transportation	12,863
Operation of Non-Instructional Services	981
Total Depreciation	<u>\$63,227</u>

**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 2015, the Educational Service Center contracted with the Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program (Note 12) 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.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

For fiscal year 2015, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 12). 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.

**C. Medical Benefits**

For fiscal year 2015, the Educational Service Center participated in the Preble County Schools Regional Council of Governments (Note 13), a shared risk pool consisting of five local School Districts and the Educational Service Center (the Council). 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.

**7. DEFINED BENEFIT PENSION PLANS**

**A. Net Pension Liability**

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment to GASB Statement No. 68" were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the Educational Service Center's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Educational Service Center's obligation for this liability to annually required payments. The Educational Service Center cannot control benefit terms or the manner in which pensions are financed; however, the Educational Service Center does receive the benefit of employees' services in exchange for compensation including pension.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

**B. Plan Description – School Employees Retirement System (SERS)**

**Plan Description** – Educational Service Center non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	<b>Eligible to Retire on or before August 1, 2017 *</b>	<b>Eligible to Retire on or after August 1, 2017</b>
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

**Funding Policy** – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

The Educational Service Center's contractually required contribution to SERS was \$117,410 for fiscal year 2015.

**C. Plan Description – State Teachers Retirement System (STRS)**

**Plan Description** – Educational Service Center licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was \$257,958 for fiscal year 2015.

**D. Net Pension Liability**

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,619,805	\$4,350,826	\$5,970,631
Proportion of the Net Pension Liability	0.0320060%	0.01788737%	

**E. Actuarial Assumptions – SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

**Discount Rate** – The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**Sensitivity of the Educational Service Center’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
Educational Service Center’s proportionate share of the net pension liability	\$2,310,981	\$1,619,805	\$1,038,467

**F. Actuarial Assumptions – STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long Term Expected Real Rate of Return</b>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**Discount Rate** – The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the Educational Service Center’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – The following table presents the Educational Service Center’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Educational Service Center’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
Educational Service Center’s proportionate share of the net pension liability	\$6,228,684	\$4,350,826	\$2,762,793

**8. POST-EMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

**Health Care Plan Description** – The Educational Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians’ fees through several types of plans including HMO’s, PPO’s, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS’ website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS’ Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS’ participation in Medicare programs. 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**8. POST-EMPLOYMENT BENEFITS (Continued)**

**Funding Policy** – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the Educational Service Center's surcharge obligation was \$15,435.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$22,740, \$23,231, and \$24,020, respectively. The full amount has been contributed for all three fiscal years.

**B. State Teachers Retirement System**

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

**Funding Policy** – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$18,339, and \$19,390 respectively. The full amount has been contributed for all three fiscal years.

**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.

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(Continued)**

**9. EMPLOYEE BENEFITS (Continued)**

**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 is administered by American Fidelity Assurance Company.

**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.

The agreement is recorded on the Statement of Net Position as “Due Within One Year” and “Due In More Than One Year.” Principal payments made during fiscal year 2015 totaled \$39,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$1,070,000.

The asset acquired through capital lease is as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Building	\$1,421,609	\$521,526	\$900,083

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, 2015:

<u>Fiscal Year Ending June 30,</u>	<u>Long-Term Obligations</u>
2016	\$96,307
2017	97,140
2018	96,828
2019	97,374
2020	95,808
2021-2025	480,549
2026-2030	477,644
2031-2032	188,931
Total minimum lease payments	1,630,581
Less: amount representing interest and charges	(560,581)
Present value of minimum lease payments	\$1,070,000

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**11. LONG-TERM OBLIGATIONS**

The only long-term obligation the Educational Service Center has is a capital lease. During fiscal year 2015, the Educational Service Center made \$39,000 in principal payments, which reduced the balance of the lease from \$1,109,000 at June 30, 2014 to \$1,070,000 at June 30, 2015. The amount due within one year is \$40,000. The capital lease will be paid from the General Fund.

**12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL**

**A. Jointly Governed Organizations**

*Southwest Ohio Computer Association*

The Educational Service Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts and educational service centers within the boundaries of Butler, Hamilton, 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 Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the board. The Educational Service Center paid SWOCA \$11,571 for services provided during the fiscal year. Financial information can be obtained from Donna Davis Norris, Executive Director of SWOCA, at 3607 Hamilton-Middletown Road, Hamilton, Ohio 45011.

*Southwestern Ohio Educational Purchasing Council*

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of over 100 school districts and educational service centers in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services, including dental insurance, commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

The Council exercises total control over the operations of the Council including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the council. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the General Fund. During fiscal year 2015, the Educational Service Center paid \$31,090 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)**

*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. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the board.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net position shall be distributed to the federal government, or to a state or local government, for a public purpose. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the board. Payments to SOITA are made from the General Fund. During fiscal year 2015, 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, Frank DePalma, who serves as Interim Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

*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 Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the board. The Educational Service Center paid PCPDC \$6,549 for services provided during the fiscal year. Financial information can be obtained from Kerry M. Borger, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at [kerry.borger@preblecountyEducationalServiceCenter.org](mailto:kerry.borger@preblecountyEducationalServiceCenter.org).

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)**

**B. Insurance Purchasing Pools**

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

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven-member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by majority vote of all member school districts. The Chief Administrator of 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.

*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.

**13. 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 Kerry M. Borger, who serves as Fiscal Officer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

**14. 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 governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**14. FUND BALANCES (Continued)**

<u>Fund Balances</u>	<u>General Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total</u>
<b>Non-spendable:</b>			
Unclaimed Monies	\$145		\$145
<b>Restricted for:</b>			
Preschool		\$540	540
Title II-A		32,632	32,632
Total Restricted		<u>33,172</u>	<u>33,172</u>
<b>Committed to:</b>			
Legal and Other Contracts	26,784		26,784
<b>Assigned to:</b>			
Purchases on Order	38,184		38,184
Unassigned	747,479		747,479
Total Fund Balances	<u>\$812,592</u>	<u>\$33,172</u>	<u>\$845,764</u>

**15. SIGNIFICANT COMMITMENTS**

**Encumbrances**

Encumbrances are commitments related to unperformed contracts for goods and services. Encumbrances accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	<u><u>\$64,969</u></u>
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**16. 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, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2015, if applicable, cannot be determined at this time.

**B. Litigation**

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**17. 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 position/fund balances, and disclosures that, while material, cannot be determined at this time. The Educational Service Center can be fined and various other administrative remedies may be taken against the Educational Service Center.

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**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, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Receipts</b>				
Intergovernmental	\$0	\$0	\$248,975	(\$248,975)
Interest	0	0	471	(471)
Tuition and Fees	0	0	3,894,875	(3,894,875)
Rent	0	0	33,115	(33,115)
Gifts and Donations	0	0	2,270	(2,270)
Charges for Services	0	0	23,903	(23,903)
Miscellaneous	0	0	190,337	(190,337)
<i>Total Receipts</i>	<u>0</u>	<u>0</u>	<u>4,393,946</u>	<u>(4,393,946)</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	412,522	445,375	428,067	17,308
Special	1,535,628	1,478,839	1,440,714	38,125
Support Services:				
Pupils	848,296	1,039,020	1,009,103	29,917
Instructional Staff	347,987	338,368	334,497	3,871
Board of Education	28,411	24,861	23,582	1,279
Administration	385,466	390,069	378,569	11,500
Fiscal	181,704	179,734	172,119	7,615
Business	3,289	3,089	1,518	1,571
Operation and Maintenance of Plant	149,631	176,836	170,219	6,617
Pupil Transportation	324,938	345,137	337,640	7,497
Central	20,093	20,319	16,891	3,428
Operation of Non-Instructional Services	10,000	24,800	24,612	188
Extracurricular Activities	4,045	4,297	4,226	71
Debt Service:				
Principal	39,000	39,000	39,000	0
Interest and Fiscal Charges	58,525	58,525	58,345	180
<i>Total Disbursements</i>	<u>4,349,535</u>	<u>4,568,269</u>	<u>4,439,102</u>	<u>129,167</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(4,349,535)</u>	<u>(4,568,269)</u>	<u>(45,156)</u>	<u>4,523,113</u>
<b>Other Financing Sources</b>				
Refund of Prior Year Expenditures	<u>\$0</u>	<u>\$0</u>	5,415	\$5,415
<i>Net Change in Fund Balance</i>			(39,741)	
<i>Fund Balance at Beginning of Year</i>			724,198	
<i>Prior Year Encumbrances Appropriated</i>			<u>63,166</u>	
<i>Fund Balance at End of Year</i>			<u>\$747,623</u>	

See Accompanying Notes to the Supplementary Information

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**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO THE SUPPLEMENTAL INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**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 Board of Education's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board of Education. The Board does not approve estimated resources. The level of control has been established by the Board of Education 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 Board of Education during the fiscal year.

**Note 2 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Schedule of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances, which are treated as cash disbursements (budgetary basis) rather than 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 statement for the General Fund.

<b>Net Change in Fund Balance</b>	
	<u>General</u>
Modified Cash Basis	<u>\$25,228</u>
Adjustment for Encumbrances	<u>(64,969)</u>
Budget Basis	<u><u>(\$39,741)</u></u>

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the modified cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Preble County Educational Service Center, Preble County, (the Educational Service Center) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated July 24, 2017, wherein we noted the Educational Service Center uses a special purpose framework other than generally accepted accounting principles.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Educational Service Center's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Educational Service Center's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Educational Service Center's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

***Educational Service Center's Response to Finding***

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

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Educational Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 24, 2017

PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2016 AND 2015

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

FINDING NUMBER 2016-001

**Noncompliance**

**Ohio Rev. Code § 117.38** provides, in part, that each public office 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 office shall submit its report on the form utilized by the public office. Ohio Admin. Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

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

The ESC should file its annual financial report in accordance with generally accepted accounting principles.

**Officials' Response:**

The Preble County Educational Service Center uses an "Other Comprehensive Basis of Accounting" financial statement that conforms to the requirement of GASB 34. Using this method does not affect the opinion issued by our independent auditors; rather the basis used is explained in their report. Also, using "Other Comprehensive Basis of Accounting" financial statements does not affect the Educational Service Center's credit rating. Therefore, the Preble County Educational Service Center does not believe a corrective action is needed.

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**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016 AND 2015**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2014-001	<b>Ohio Rev. Code §117.38 and Ohio Admin. Code §117-2-03(B)</b> - Failure to prepare financial statements in accordance with generally accepted accounting principles.	Not corrected. Repeated as Finding 2016-001	The Preble County Educational Service Center uses an "Other Comprehensive Basis of Accounting" financial statement that conforms to the requirement of GASB 34. Using this method does not affect the opinion issued by our independent auditors; rather the basis used is explained in their report. Also, using "Other Comprehensive Basis of Accounting" financial statements does not affect the Educational Service Center's credit rating. Therefore, the Preble County Educational Service Center does not believe a corrective action is needed.
2014-002	Significant Deficiency – Internal Control – Bank Reconciliation Review	Corrective Action Taken and Finding is Fully Corrected	

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**CORRECTIVE ACTION PLAN  
JUNE 30, 2016 AND 2015**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2016-001	The Preble County Educational Service Center uses an "Other Comprehensive Basis of Accounting" financial statement that conforms to the requirement of GASB 34. Using this method does not affect the opinion issued by our independent auditors; rather the basis used is explained in their report. Also, using "Other Comprehensive Basis of Accounting" financial statements does not affect the Educational Service Center's credit rating. Therefore, the Preble County Educational Service Center does not believe a corrective action is needed.	N/A	Kerry Borger, Treasurer



# 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  
AUGUST 24, 2017