



**Auditor of State  
Betty Montgomery**



**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Preble County Educational Service Center  
Preble County  
101 East Main Street  
Eaton, Ohio 45320

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Preble County Educational Service Center, Preble County, Ohio (the Center), as of and for the year ended June 30, 2003, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Preble County Educational Service Center, Preble County, Ohio, as of June 30, 2003, and the respective changes in financial position, where applicable, and the respective budgetary comparisons for the General Fund and Miscellaneous Federal Grants Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2004, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the Center's basic financial statements. The schedule of federal awards expenditures is required by the *U.S. Office of Management & Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

February 25, 2004

Preble County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003

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The discussion and analysis of 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, 2003. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Educational Service Center's financial performance.

**Financial Highlights**

Key financial highlights for 2003 are as follows:

In total, net assets decreased \$693,567, which represents a 56.65 percent decrease from 2002.

General revenues accounted for \$1,076,110 in revenue or 24 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$3,479,352 or 76 percent of total revenues of \$4,555,462.

Total assets of governmental activities increased by \$717,317, as cash and cash equivalents decreased by \$401,554, receivables decreased by \$459,678, cash and cash equivalents with fiscal agent increased by \$1,419,474, and capital assets increased by \$132,928.

The Educational Service Center had \$5,249,029 in expenses; \$3,479,352 of these expenses were offset by program specific charges for services, grants or contributions.

Among major funds, the general fund had \$4,126,757 in revenues and \$4,420,662 in expenditures. The General Fund's balance decreased \$293,905 from 2002.

**Using this General Accepted Accounting Principals Report (GAAP)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Educational Service Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Educational Service Center, the general fund is the most significant fund.

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

### *Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the Educational Service Center's required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Educational Service Center reports governmental activities. Governmental activities are the activities where most of the Educational Service Center's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The Educational Service Center does not have any business-type activities.

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

### *Fund Financial Statements*

The analysis of the Educational Service Center's major funds begins on page 7. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the general fund, the miscellaneous federal grants special revenue fund, and the building project capital projects 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 the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general government 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. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.



Preble County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003

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**The Educational Service Center as a Whole**

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center's net assets for 2003 compared to 2002:

Table 1 Net Assets		
	2002	2003
<b>Assets</b>		
Current and Other Assets	\$1,604,539	\$2,188,928
Capital Assets	323,874	456,802
Total Assets	1,928,413	2,645,730
<b>Liabilities</b>		
Long-Term Liabilities	64,194	1,514,090
Other Liabilities	639,857	600,845
Total Liabilities	704,051	2,114,935
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	323,874	429,757
Restricted	577,883	113,687
Unrestricted (Deficit)	322,605	(12,649)
Total Net Assets	\$1,224,362	\$530,795

Total assets of governmental activities increased by \$717,317, as cash and cash equivalents decreased by \$401,554, receivables decreased by \$459,678, cash and cash equivalents with fiscal agent increased by \$1,419,474, and capital assets increased by \$132,928. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the Educational Service Center decreased by \$335,254.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the Educational Service Center has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Preble County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003

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Table 2  
Changes in Net Assets

	2003
<b>Revenues</b>	
Program Revenues:	
Charges for Services	\$3,146,573
Operating Grants, Contributions and Interest	331,579
Capital Grants and Contributions	1,200
Total Program Revenues	3,479,352
General Revenues:	
Grants and Entitlements	1,003,074
Investment Earnings	18,069
Miscellaneous	54,967
Total General Revenues	1,076,110
Total Revenues	4,555,462
<b>Program Expenses</b>	
Instruction	1,222,155
Support Services:	
Pupils and Instructional Staff	2,597,974
Board of Education, Administration, Fiscal and Business	655,464
Operation and Maintenance of Plant	48,934
Pupil Transportation	659,354
Central	47,828
Operation of Non-Instructional Services	3,567
Extracurricular Activities	1,980
Interest and Fiscal Charges	11,773
Total Expenses	5,249,029
Decrease in Net Assets	(\$693,567)

**Governmental Activities**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements. Comparisons to 2002 have not been made since they are not available.

Preble County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003

Table 3

	Total Cost of Services 2003	Net Cost of Services 2003
Instruction	\$1,222,155	(\$229,602)
Support Services:		
Pupils and Instructional Staff	2,597,974	1,025,545
Board of Education, Administration, Fiscal and Business	655,464	643,757
Operation and Maintenance of Plant	48,934	37,018
Pupil Transportation	659,354	227,811
Central	47,828	47,828
Operation of Non-Instructional Services	3,567	3,567
Extracurricular Activities	1,980	1,980
Interest and Fiscal Charges	11,773	11,773
Total Expenses	<u>\$5,249,029</u>	<u>\$1,769,677</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the district.

Operation and maintenance of plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Operation of non-instructional services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

Extracurricular activities includes expense related to student activities provided by the Educational Service Center which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involves the transactions associated with the payment of interest and other related charges of the lease purchase agreement of the Educational Service Center.

Preble County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003

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**The Educational Service Center's Funds**

Information about the Educational Service Center's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,880,555 and expenditures of \$5,382,065. The net change in fund balance for the year was significant in the general fund which had a decrease of \$293,905, partly as a result of the Educational Service Center entering into a building project. The \$1,380,387 net increase in the building project fund balance was due to proceeds from the lease-purchase agreement associated with the construction of a new building.

**General Fund Budgeting Highlights**

The Educational Service Center's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursement and encumbrances. The Educational Service Center's most significant budgeted fund is the general fund. The general fund is budgeted at the fund level. The ending unobligated cash balance was \$237,699 above the final budgeted amount for the general fund. This was largely due to actual expenditures being less than the amounts budgeted.

**Capital Assets**

At the end of the fiscal year 2003, the Educational Service Center had \$456,802 invested in land, construction in progress, furniture, fixtures, and equipment, and vehicles.

Table 4 shows fiscal 2003 balances compared to 2002.

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

	2002	2003
Land	\$0	\$67,956
Construction in Progress	0	48,924
Furniture, Fixtures and Equipment	104,549	95,690
Vehicles	219,325	244,232
Totals	<u>\$323,874</u>	<u>\$456,802</u>

Overall capital assets increased \$132,928 from fiscal year 2002 to fiscal year 2003. The Educational Service Center purchased 10.384 acres from the Preble County Commissioners in December 2002 for an office building and a classrooms facility. Bids were obtained and approved in March 2003. Site work and excavation was started in April. The estimated completion date is February 22, 2004.

For more information on capital assets, see Note 9 of the Basic Financial Statements.

Preble County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003

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**Debt Administration**

At June 30, 2003, the Educational Service Center had a lease-purchase agreement outstanding with the Columbus Regional Airport Authority. The lease-purchase agreement was originally dated April 24, 2003, and will be retired on January 1, 2032. The lease-purchase is financing the building of a new facility for the Educational Service Center.

Table 5  
Outstanding Debt at June 30,

	<u>2002</u>	<u>2003</u>
Capital Lease Payable	<u>\$0</u>	<u>\$1,441,000</u>

For more information on the Educational Service Center's debt, see Notes 14 and 15 of the Basic Financial Statements.

**Contacting the Educational Service Center's Financial Management**

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Terri Freeman, Treasurer at Preble County Educational Service Center, 101 East Main Street, Eaton, Ohio 45320 or email at [pbbo\\_tf@swoca.net](mailto:pbbo_tf@swoca.net).

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PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
STATEMENT OF NET ASSETS  
JUNE 30, 2003

	GOVERNMENTAL ACTIVITIES
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$697,819
Accounts Receivable	5,286
Intergovernmental Receivable	34,104
Prepaid Items	8,393
Deferred Charges	23,852
Investments With Fiscal Agent	1,419,474
Depreciable Capital Assets, Net	339,922
Land	67,956
Construction in Progress	48,924
Total Assets	2,645,730
Liabilities:	
Accounts Payable	34,104
Contracts Payable	42,604
Accrued Wages and Benefits Payable	271,800
Intergovernmental Payable	235,474
Vacation Leave Payable	13,736
Retainage Payable	3,127
Long Term Liabilities:	
Due Within One Year	37,723
Due In More Than One Year	1,476,367
Total Liabilities	2,114,935
Net Assets:	
Invested in Capital Assets, Net of Related Debt	429,757
Restricted for Other Purposes	113,687
Unrestricted (Deficit)	(12,649)
Total Net Assets	\$530,795

See Accompanying Notes to the Basic Financial Statements

PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Governmental Activities			
Instruction:			
Regular	\$160,001	\$183,104	\$43,696
Special	1,061,769	1,224,339	618
Adult/Continuing	385	0	0
Support Services:			
Pupils	1,489,801	665,744	159,585
Instructional Staff	1,108,173	694,219	52,881
Board of Education	14,164	0	0
Administration	402,576	312	0
Fiscal	204,776	0	5,799
Business	33,948	0	5,596
Operation and Maintenance of Plant	48,934	312	10,404
Pupil Transportation	659,354	378,543	53,000
Central	47,828	0	0
Operation of Non-Instructional Services	3,567	0	0
Extracurricular Activities	1,980	0	0
Interest and Fiscal Charges	11,773	0	0
Total Governmental Activities	<u>\$5,249,029</u>	<u>\$3,146,573</u>	<u>\$331,579</u>

General Revenues:  
Grants and Entitlements not Restricted to  
  Specific Programs  
Investment Earnings  
Miscellaneous  
Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements



PROGRAM REVENUES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
CAPITAL GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
\$0	\$66,799
0	163,188
0	(385)
0	(664,472)
0	(361,073)
0	(14,164)
0	(402,264)
0	(198,977)
0	(28,352)
1,200	(37,018)
0	(227,811)
0	(47,828)
0	(3,567)
0	(1,980)
0	(11,773)
<u>\$1,200</u>	<u>(1,769,677)</u>

1,003,074
18,069
<u>54,967</u>
<u>1,076,110</u>
(693,567)
<u>1,224,362</u>
<u>\$530,795</u>

PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2003

	GENERAL	MISCELLANEOUS FEDERAL GRANTS	BUILDING PROJECT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$469,804	\$41,585	\$7,000	\$179,430	\$697,819
Receivables:					
Accounts	5,286	0	0	0	5,286
Intergovernmental	10,229	0	0	23,875	34,104
Interfund	62,317	0	0	0	62,317
Prepaid Items	8,283	55	0	55	8,393
Restricted Assets:					
Investments with Fiscal Agent	0	0	1,419,474	0	1,419,474
Total Assets	<u>\$555,919</u>	<u>\$41,640</u>	<u>\$1,426,474</u>	<u>\$203,360</u>	<u>\$2,227,393</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable	\$15,009	\$5,910	\$0	\$13,185	\$34,104
Contracts Payable	6,644	0	35,960	0	42,604
Retainage Payable	0	0	3,127	0	3,127
Accrued Wages and Benefits Payable	239,521	10,583	0	21,696	271,800
Interfund	0	33,416	7,000	21,901	62,317
Intergovernmental Payable	184,805	6,683	0	13,518	205,006
Deferred Revenue	9,945	0	0	6,495	16,440
Total Liabilities	<u>455,924</u>	<u>56,592</u>	<u>46,087</u>	<u>76,795</u>	<u>635,398</u>
Fund Balances:					
Reserved for Encumbrances	229,786	29,809	7,000	37,128	303,723
Unreserved, Undesignated, (Deficit)					
Reported in:					
General Fund	(129,791)	0	0	0	(129,791)
Special Revenue Funds	0	(44,761)	0	89,437	44,676
Capital Projects Funds	0	0	1,373,387	0	1,373,387
Total Fund Balances (Deficit)	<u>99,995</u>	<u>(14,952)</u>	<u>1,380,387</u>	<u>126,565</u>	<u>1,591,995</u>
Total Liabilities and Fund Balances	<u>\$555,919</u>	<u>\$41,640</u>	<u>\$1,426,474</u>	<u>\$203,360</u>	<u>\$2,227,393</u>

See Accompanying Notes to the Basic Financial Statements

PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2003

Total Governmental Fund Balances		\$1,591,995
Amounts reported for governmental activities in the statement of net assets are different because:		
Deferred charges reported in governmental activities are expended in the funds in the year incurred and therefore are not reported as an asset in the funds.		23,852
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	
Construction in Progress	48,924	
Furniture, Fixtures and Equipment	206,995	
Vehicles	468,353	
Accumulated Depreciation	(335,426)	
Total Capital Assets		456,802
Long-term assets are not available to pay current-period expenditures and therefore are deferred in the funds:		
Charges for Services	4,736	
Intergovernmental Grants	11,704	
		16,440
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Capital Leases Payable	(1,441,000)	
Vacation Leave Payable	(13,736)	
Compensated Absences	(73,090)	
Intergovernmental Payable	(30,468)	
Total Liabilities		(1,558,294)
Net Assets of Governmental Activities		\$530,795

See Accompanying Notes to the Basic Financial Statements

PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GENERAL	MISCELLANEOUS FEDERAL GRANTS	BUILDING PROJECT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:					
Intergovernmental	\$1,056,074	\$462,183	\$0	\$140,508	\$1,658,765
Interest	12,550	0	5,519	0	18,069
Tuition and Fees	980,250	0	0	38,397	1,018,647
Charges for Services	2,022,776	0	0	105,376	2,128,152
Gifts and Donations	0	0	0	618	618
Miscellaneous	55,107	0	0	1,197	56,304
Total Revenues	<u>4,126,757</u>	<u>462,183</u>	<u>5,519</u>	<u>286,096</u>	<u>4,880,555</u>
Expenditures:					
Current:					
Instruction:					
Regular	89,719	0	0	67,696	157,415
Special	1,056,342	0	0	5,863	1,062,205
Adult/Continuing	0	385	0	0	385
Support Services:					
Pupils	908,524	502,766	0	71,612	1,482,902
Instructional Staff	903,165	11,498	0	172,649	1,087,312
Board of Education	14,164	0	0	0	14,164
Administration	400,242	0	0	678	400,920
Fiscal	190,642	9,980	0	3,478	204,100
Business	9,847	23,896	0	0	33,743
Operation and Maintenance of Plant	39,068	0	0	9,866	48,934
Pupil Transportation	604,561	2,256	0	449	607,266
Central	31,848	0	0	12,199	44,047
Operation of Non-Instructional Services	3,567	0	0	0	3,567
Extracurricular Activities	1,980	0	0	0	1,980
Capital Outlay	155,220	0	42,280	0	197,500
Debt Service:					
Interest and Fiscal Charges	11,773	0	0	0	11,773
Lease Issuance Costs	0	0	23,852	0	23,852
Total Expenditures	<u>4,420,662</u>	<u>550,781</u>	<u>66,132</u>	<u>344,490</u>	<u>5,382,065</u>
Excess of Revenues Under Expenditures	(293,905)	(88,598)	(60,613)	(58,394)	(501,510)
Other Financing Sources:					
Proceeds from Capital Lease	0	0	1,441,000	0	1,441,000
Net Change in Fund Balances	(293,905)	(88,598)	1,380,387	(58,394)	939,490
Fund Balances at Beginning of Year - Restated (Note 3)	393,900	73,646	0	184,959	652,505
Fund Balances (Deficit) at End of Year	<u>\$99,995</u>	<u>(\$14,952)</u>	<u>\$1,380,387</u>	<u>\$126,565</u>	<u>\$1,591,995</u>

See Accompanying Notes to the Basic Financial Statements

PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net Change in Fund Balances - Total Governmental Funds		\$939,490
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital Outlay	191,680	
Depreciation Expense	<u>(58,600)</u>	
Excess of Capital Outlay over Depreciation Expense		133,080
The cost of disposed capital assets is removed from the capital assets account on the statement of net assets resulting in a loss on disposal of capital assets on the statement of activities		
Loss on Disposal of Capital Assets		(152)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.		
		(1,441,000)
Deferred charges used in governmental activities are not financial resources and therefore are not reported as an asset in the funds.		
		23,852
Some revenues that will not be collected for several months after the Educational Service Center's fiscal year end are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues changed by this amount this fiscal year.		
Tuition and Fees	3,946	
Charges for Services	(5,369)	
Intergovernmental Grants	(323,530)	
Miscellaneous	<u>(140)</u>	
		(325,093)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in Compensated Absences	(8,896)	
Increase in Intergovernmental Payable	(15,266)	
Decrease in Vacation Leave Payable	<u>418</u>	
		<u>(23,744)</u>
Change in Net Assets of Governmental Activities		<u><u>(\$693,567)</u></u>
See Accompanying Notes to the Basic Financial Statements		

PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
Revenues:				
Intergovernmental	\$981,729	\$997,585	\$1,054,035	\$56,450
Interest	24,603	25,000	14,225	(10,775)
Tuition and Fees	1,083,081	1,100,575	975,230	(125,345)
Charges for Services	1,922,212	1,953,260	2,056,948	103,688
Miscellaneous	84,643	86,010	52,403	(33,607)
Total Revenues	<u>4,096,268</u>	<u>4,162,430</u>	<u>4,152,841</u>	<u>(9,589)</u>
Expenditures:				
Current:				
Instruction:				
Regular	107,673	92,697	92,431	266
Special	1,175,035	1,096,650	1,096,480	170
Support Services:				
Pupils	999,193	962,993	961,400	1,593
Instructional Staff	1,064,407	995,113	965,879	29,234
Board of Education	30,542	30,442	16,812	13,630
Administration	463,767	477,692	413,625	64,067
Fiscal	207,443	232,277	213,673	18,604
Business	15,710	15,610	9,966	5,644
Operation and Maintenance of Plant	50,431	50,055	43,472	6,583
Pupil Transportation	730,769	726,594	671,122	55,472
Central	54,652	54,206	37,740	16,466
Operation of Non-Instructional Services	0	3,571	3,567	4
Extracurricular Activities	3,650	3,640	2,180	1,460
Capital Outlay	0	171,738	171,738	0
Debt Service:				
Interest and Fiscal Charges	0	12,302	12,302	0
Total Expenditures	<u>4,903,272</u>	<u>4,925,580</u>	<u>4,712,387</u>	<u>213,193</u>
Excess of Revenues Under Expenditures	<u>(807,004)</u>	<u>(763,150)</u>	<u>(559,546)</u>	<u>203,604</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditure	0	0	9,125	9,125
Other Financing Uses	0	(915)	0	915
Advances - In	217,891	217,891	233,726	15,835
Advances - Out	0	(59,169)	(59,169)	0
Operating Transfers - Out	0	(8,220)	0	8,220
Total Other Financing Sources (Uses)	<u>217,891</u>	<u>149,587</u>	<u>183,682</u>	<u>34,095</u>
Net Change in Fund Balances	(589,113)	(613,563)	(375,864)	237,699
Fund Balances at Beginning of Year	330,192	330,192	330,192	0
Prior Year Encumbrances Appropriated	259,747	259,747	259,747	0
Fund Balances (Deficit) at End of Year	<u>\$826</u>	<u>(\$23,624)</u>	<u>\$214,075</u>	<u>\$237,699</u>

See Accompanying Notes to the Basic Financial Statements

PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL  
MISCELLANEOUS FEDERAL GRANTS FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues:				
Intergovernmental	\$378,380	\$409,683	\$574,691	\$165,008
Expenditures:				
Current:				
Instruction:				
Adult/Continuing	4,702	4,603	4,603	0
Support Services:				
Pupils	560,840	548,977	548,977	0
Instructional Staff	20,508	20,074	14,453	5,621
Fiscal	11,212	10,975	10,975	0
Business	24,412	23,896	23,896	0
Pupil Transportation	2,294	2,245	2,245	0
Total Expenditures	623,968	610,770	605,149	5,621
Excess of Revenues Under Expenditures	(245,588)	(201,087)	(30,458)	170,629
Other Financing Sources (Uses):				
Advances - In	0	0	33,416	33,416
Advances - Out	0	(227,619)	(227,619)	0
Total Other Financing Sources (Uses)	0	(227,619)	(194,203)	33,416
Net Change in Fund Balances	(245,588)	(428,706)	(224,661)	204,045
Fund Balances at Beginning of Year	15,303	15,303	15,303	0
Prior Year Encumbrances Appropriated	214,983	214,983	214,983	0
Fund Balances (Deficits) at End of Year	(\$15,302)	(\$198,420)	\$5,625	\$204,045

See Accompanying Notes to the Basic Financial Statements

PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2003

	PRIVATE PURPOSE TRUST	
	SCHOLARSHIP	AGENCY
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$1,696	\$3,423
Liabilities:		
Accounts Payable	500	\$0
Undistributed Monies	0	3,423
Total Liabilities	500	\$3,423
Net Assets:		
Held in Trust for Scholarships	\$1,196	

See Accompanying Notes to the Basic Financial Statements



PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	PRIVATE PURPOSE TRUST	
	SCHOLARSHIP	
Additions		
Interest		\$42
Gifts and Donations		1,000
Total Additions		1,042
Deletions		
Other		994
Change in Net Assets		48
Net Assets Beginning of Year		1,148
Net Assets End of Year		\$1,196

See Accompanying Notes to the Basic Financial Statements

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

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

*Reporting Entity:*

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements 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 general operations and student related activities of the Educational Service Center.

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

The Educational Service Center participates in three jointly governed organizations, two insurance purchasing pools, and one shared risk pool. These organizations are the Southwest Ohio Computer Association, the Southwestern Ohio Educational Purchasing Council, the Southwestern Ohio Instructional Technology Association, the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan, the Ohio School Plan, and the Preble County Consortium. Information about these organizations is presented in Notes 17, 18, and 19 to the basic financial statements.

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

The financial statements of Preble County Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most 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 assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

*Government-wide Financial Statements:*

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The government-wide statements usually distinguish between those activities that are governmental and those that are business-type. The Educational Service Center, however, has no activities which are reported as business-type.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

*Fund Financial Statements:*

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

**NOTE 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.

*Governmental Funds:*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Educational Service Center's major governmental funds:

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

*Miscellaneous Federal Grants Special Revenue Fund* – The miscellaneous federal grants special revenue fund is used to account for various monies received through state agencies from the federal government or directly from the federal government which are not classified elsewhere.

*Building Project Capital Projects Fund* - The building project capital projects fund accounts for the construction of a new building for the Educational Service Center.

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

*Fiduciary Fund Types:*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's only trust fund is a private purpose trust which accounts for a college scholarship program for students. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds accounts for activity on behalf of student work programs, activities of the Family and Children First Council which the Educational Service Center is fiscal agent for, and for unreimbursed medical claims for employees.

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

**C. Measurement Focus**

*Government-wide Financial Statements:*

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the Statement of Net Assets. The Statement of Activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

*Fund Financial Statements*

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

*Revenues - Exchange and Non-exchange Transactions:*

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year-end.

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

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: grants, tuition and fees, and user charged services.

*Deferred Revenue:*

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements from other school districts received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

*Expenditures/Expenses:*

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of costs, such as depreciation and amortization are not recognized in governmental funds.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

**E. Cash and Cash Equivalents**

To improve cash management, all 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". Cash received through the lease-purchase agreement is held in a separate bank account by National City Bank. The balance in this account is presented on the financial statements as "Investments With Fiscal Agent" and represents investments.

Preble County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

During fiscal year 2003, the Educational Service Center's investments included Armada Government Money Market Mutual Fund, an investment with Bayerische Hypo Und Vereinsbank and the State Treasury Asset Reserve of Ohio (STAR Ohio). Other than Star Ohio, investments are reported at fair value which is based on current share prices for mutual funds and quoted market prices for other investments. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$12,550 which includes \$2,894 assigned from other funds.

Investments of the cash management pool and investments with a 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. Investments with an original maturity of more than three months are reported as investments.

**F. Interfund Balances**

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables." These amounts between governmental funds are eliminated in the governmental activities column of the statement of net assets.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

**H. Issuance Costs**

Issuance costs incurred with the lease-purchase agreement are deferred and amortized over the term of the lease using the straight line method. The issuance costs are recorded as deferred charges on the statement of net assets and expensed on the fund financial statements.

**I. Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the building project capital projects funds are investments that are restricted for the payments associated with the construction of the new building.

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

**J. Capital Assets**

The School District's only capital assets are general capital assets. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of one thousand five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except for land and construction in progress 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
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	10 years

**K. Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current fiscal year. Capital leases are recognized as a liability in the fund financial statements when due.

**L. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that the benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.



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

**M. Interfund Transactions**

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

**N. Fund Balance Reserves**

The Educational Service Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

**O. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Educational Service Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**P. Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Q. Budgetary Data**

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts: Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

The Educational Service Center's Board adopts an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

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

Throughout the fiscal year, estimated resources and appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the budget submitted to the State Department of Education and 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 in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2003, the School District has implemented GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 41, “Budgetary Comparison Schedules - Perspective Differences”, and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

*GASB Statement No. 34* creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The government-wide financial statements combine the governmental activities into one column.

*GASB Statement No. 37* clarifies certain provisions of *GASB Statement No. 34*, including the required content of the Management’s Discussion and Analysis, the classification of program revenues, and the criteria for determining major funds.

*GASB Statement No. 38* modifies, establishes, and rescinds certain financial statement note disclosure.

*GASB Statement No. 41* only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the general and major special revenue funds. The implementation of this statement had no effect on the presentation of budgetary statements by the Educational Service Center for fiscal year 2003.

*GASB Interpretation No. 6* clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures that potentially could arise, in interpretation and practice.

The Educational Service Center has also implemented a new capital asset policy which increases the capitalization threshold for capital assets from \$500 to \$1,500. The reason for the change was to reduce the cost of maintaining capital asset information by significantly reducing the number of items tracked. For general capital assets, the balance at June 30, 2002, changed by \$407,503 from \$731,377 to \$323,874.

Compensated absences were restated by \$13,711 at June 30, 2002 from \$77,905 to \$64,195 due to an error in the calculation from the previous year. Interfund receivables and payables were also restated for errors.

Preble County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES** (continued)

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

	General	Miscellaneous Federal Grants	Nonmajor	Totals
Fund Balance June 30, 2002	\$377,994	\$73,646	\$190,711	\$642,351
Interfund Activity	6,107	0	(6,107)	0
Interpretation No. 6	9,799	0	355	10,154
Adjusted Fund Balance June 30, 2002	\$393,900	\$73,646	\$184,959	652,505
GASB 34 Adjustments:				
Deferred Revenue:				
Charges for Services				200
Intergovernmental Grants				341,333
Capital Assets				323,874
Intergovernmental Payable				(15,202)
Vacation Leave Payable				(14,154)
Compensated Absences Payable				(64,194)
Governmental Activities Net Assets June 30, 2002				\$1,224,362

**NOTE 4 – ACCOUNTABILITY**

**A. Accountability**

The following funds had deficit fund balances at June 30, 2003:

Fund	Deficit
Major Funds:	
Miscellaneous Federal Grants	\$14,952
Other Governmental Funds:	
EMIS	803
Summer Institute for Reading Intervention	8,557

The general fund provides transfers to cover deficit balances; however, this is done when cash is needed, rather than when accruals occur.

Preble County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual for the general fund and the miscellaneous federal grants fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis)
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statement. These amounts are included as revenue on the GAAP basis operating statements.

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund and the miscellaneous federal grants special revenue fund.

	Net Change in Fund Balance	
	General	Miscellaneous Federal Grants
GAAP Basis	(\$293,905)	(\$88,598)
Net Adjustment for Revenue Accruals	33,534	112,508
Net Adjustment for Expenditure Accruals	(39,281)	(18,425)
Unrecorded Cash FY 2002	2,471	0
Unrecorded Cash FY 2003	(796)	0
Prepaid Items	2,489	17
Advances	174,557	(194,203)
Adjustment for Encumbrances	(254,933)	(35,960)
Budget Basis	(\$375,864)	(\$224,661)

**NOTE 6 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the Educational Service Center into three categories.

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

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and

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

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligation, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

*Cash on Hand:* At fiscal year-end, the Educational Service Center had \$175 in undeposited cash on hand which is included on the balance sheet of the Educational Service Center as part of "Equity in Pooled Cash and Cash Equivalents."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

*Deposits:* At fiscal year-end, the carrying amount of the Educational Service Center's deposits was (\$27,100) and the bank balance was \$69,509. The entire bank balance was covered by the federal depository insurance.

*Investments:* The Educational Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. STAR Ohio, an investment pool operated by the Ohio State Treasurer, and money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Unclassified	Carrying/Fair Value
Armada Government Money Market Mutual Fund	\$5,026	\$5,026
Investment with Bayerische Hypo Und Vereinsbank	1,414,448	1,414,448
Star Ohio	729,863	729,863
Total	\$2,149,337	\$2,149,337

Preble County Educational Service Center  
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**NOTE 6 - DEPOSITS AND INVESTMENTS** (continued)

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$702,938	\$1,419,474
Cash on Hand	(175)	0
Investments:		
STAR Ohio	(729,863)	729,863
GASB Statement No. 3	(\$27,100)	\$2,149,337

**NOTE 7 – STATE FUNDING**

The Educational Service Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the local school districts to which the Educational Service Center provides services and by the State Department of Education. Each local school district's portion is determined by multiplying the average daily membership of the local school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that local school district's resources provided under the State's School Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the local school districts served by the Educational Service Center by \$37. This amount is provided from State resources.

If additional funding is needed by the Educational Service Center, and if a majority of the Boards of Education of the local school districts served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the local school districts served by the Educational Service Center through additional reductions in their resources provided through the School Foundation Program. The State Board of Education initiates and supervises the procedure under which the local school districts approve or disapprove the additional apportionment.

Preble County Educational Service Center  
Notes to the Basic Financial Statements  
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**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2003, consisted of interfund and intergovernmental grants, billings for user charged services and tuition and fees. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivable follows:

	Amounts
Governmental Activities	
State of Ohio – Transportation Fees	\$5,020
Charges for Services Provided to Local School Districts	5,209
Charges for Services Provided to Local School Districts	6,495
Title II-A Grant	9,842
Title VI Grant	3,813
Title IV Grant	3,725
Total Intergovernmental Receivables	\$34,104

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance 6/30/02	Additions	Deductions	Balance 6/30/03
<b>Governmental Activities</b>				
Capital Assets, not Being Depreciated:				
Land	\$0	\$67,956	\$0	\$67,956
Construction in Progress	0	48,924	0	48,924
Total Capital Assets, not Being Depreciated	0	116,880	0	116,880
Capital Assets, Being Depreciated:				
Furniture, Fixtures and Equipment	197,511	11,009	(1,525)	206,995
Vehicles	404,562	63,791	0	468,353
Total Capital Assets, Being Depreciated	602,073	74,800	(1,525)	675,348
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(92,962)	(19,716)	1,373	(111,305)
Vehicles	(185,237)	(38,884)	0	(224,121)
Total Accumulated Depreciation	(278,199)	(58,600) *	1,373	(335,426)
Capital Assets, Being Depreciated, Net	323,874	16,200	(152)	339,922
Governmental Activities Capital Assets, Net	\$323,874	\$133,080	(\$152)	\$456,802



Preble County Educational Service Center  
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**NOTE 9 - CAPITAL ASSETS** (continued)

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

Instruction:	
Regular	\$774
Special	1,433
Support Services:	
Pupil	3,913
Instructional Staff	5,514
Administration	3,200
Fiscal	1,101
Pupil Transportation	38,884
Central	3,781
Total Depreciation Expense	\$58,600

**NOTE 10 - 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 2003, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 18). The School District contracts for automobile liability, education general liability and employee benefits liability with OSP.

Coverage provided by Ohio School Plan is as follows:

Equipment Insurance (\$1,000 deductible)	\$806,568
Automobile Liability (\$50 comprehensive deductible, \$250 collision deductible)	1,000,000
Medical Payments	5,000
Uninsured Motorist Liability	1,000,000
Excess Hired and Primary Non-owned Automobile Liability	1,000,000
General Liability (aggregate)	5,000,000
General Liability (per occurrence)	2,000,000
Medical Payments (per person)	5,000
Fire Damage Limit (any one fire)	100,000

**NOTE 10 - RISK MANAGEMENT** (continued)

Settled claims have not exceeded this commercial coverage in any of the past three years. Equipment coverage was increased by \$500,000 for fiscal year 2003.

**B. Workers' Compensation**

For fiscal year 2003, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The Plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control and actuarial services to the GRP.

**C. Medical Benefits**

For fiscal year 2003, the Educational Service Center also participated in the Preble County Consortium (the Consortium), a shared risk pool consisting of five local school districts and an educational service center (See Note 19). The Educational Service Center pays monthly premiums to the Consortium for employee medical benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS** (continued)

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$164,271, \$83,749, and \$21,692, respectively; 42.06 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

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

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

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

**NOTE 11 - DEFINED BENEFIT PENSION PLANS** (continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$239,698, \$180,534, and \$215,029, respectively; 92.66 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$0 made by the School District and \$8,102 made by the plan members.

**C Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2003, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining members of the board have elected SERS.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$18,438 for fiscal year 2003.

**NOTE 12 - POSTEMPLOYMENT BENEFITS** (continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the fiscal year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$136,009.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**NOTE 13 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from the Educational Service Center's Board approved policies and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Vacation leave must be used by each employee prior to the end of their contract year, unless special permission is granted; any remaining balance at that time is forfeited. Accumulated, unused vacation time earned within a contract year is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month, fifteen days per year. Sick leave may be accumulated up to a maximum of 190 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 30 days for all employees.

**NOTE 13 - EMPLOYEE BENEFITS** (continued)

**B. Health Care Benefits**

The Educational Service Center provides health insurance benefits to employees through the Preble County Consortium (the Consortium) (See Note 19). The premium varies with each employee depending on marital and family status.

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

**C. Life Insurance**

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

**NOTE 14 - CAPITALIZED LEASE - LESSEE DISCLOSURE**

During 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. Columbus Regional Airport Authority has assigned National City Bank as trustee. The Columbus Regional Airport Authority deposited \$1,441,000 with the trustee for the construction. Amounts are reimbursed to the Educational Service Center for expenditures made on work completed. The Educational Service Center will make semi-annual lease payments to National City Bank. Interest rates are based on a calculation of the TBMA Index.

The agreement is recorded on the Statement of Net Assets as “Long Term Liabilities: Due Within One Year” and “Long Term Liabilities: Due In More Than One Year.” At fiscal year-end, capital assets being constructed under this lease have been capitalized as construction in progress on the Statement of Net Assets in the amount of \$48,924. The amount of \$1,419,474, which includes \$5,519 of accrued interest, is still being held by the fiscal agent. No principal payments were made during fiscal year 2003. The principal amount owed on the lease at fiscal year-end is \$1,441,000.

Preble County Educational Service Center  
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**NOTE 14 - CAPITALIZED LEASE - LESSEE DISCLOSURE** (continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2003.

Fiscal Year Ending June 30,	Long-Term Obligations
2004	\$39,636
2005	91,792
2006	91,889
2007	91,973
2008	90,924
2009-2013	458,914
2014-2018	457,231
2019-2023	458,638
2024-2028	458,723
2029-2033	393,325
Total minimum lease payments	2,633,045
Less: amount representing interest and charges	(1,192,045)
Present value of minimum lease payments	\$1,441,000

**NOTE 15 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2003 were as follows:

	Amount Outstanding 6/30/02	Additions	Deductions	Amount Outstanding 6/30/03	Amounts Due in One Year
Capital Lease	\$0	\$1,441,000	\$0	\$1,441,000	\$16,000
Compensated Absences	64,194	21,544	12,648	73,090	21,723
Total Governmental Activities					
Long - Term Liabilities	\$64,194	\$1,462,544	\$12,648	\$1,514,090	\$37,723

The capital lease will be paid from the general fund.

Compensated absences will be paid from the fund from which the employee's salaries are paid.

**NOTE 16 - INTERFUND ASSETS/LIABILITIES**

The general fund had an interfund receivable at June 30, 2003, of \$62,317. The federal miscellaneous grants fund had an interfund payable of \$33,416 while all other nonmajor funds had interfund payables of \$28,901. General fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the general fund for advancing monies to other funds due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund reimburses the general fund for the initial advance.

**NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS**

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

The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among members. The governing board of SWOCA consists of one representative from each entity plus one representative from the fiscal agent. The Educational Service Center paid SWOCA \$11,534 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

*Southwestern Ohio Educational Purchasing Council* - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2003, the Preble County Educational Service Center paid \$3,436 in fees to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton 45424.



**NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS** (continued)

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2003, the Preble County Educational Service Center paid \$3,491 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Straus, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**NOTE 18 - INSURANCE PURCHASING POOLS**

*Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan* - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by an eleven member committee consisting of various GRP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

*Ohio School Plan* - The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Preble County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 19 - SHARED RISK POOL**

*Preble County Consortium* - The Preble County Consortium (the Consortium), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center. The Consortium is governed by an advisory committee consisting of each member's superintendent or designee from each participating school district. Premiums are paid on a monthly basis to the Consortium and their designated insurance company. The Consortium is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Consortium may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Consortium. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 101 E. Main Street, Eaton, Ohio 45320.

**NOTE 20 – SIGNIFICANT CONTRACTUAL COMMITMENTS**

At June 30, 2003, the Educational Service Center had significant contractual purchase commitments as follows:

<u>Vendor</u>	<u>Project</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance at 6/30/03</u>
Calvary Contracting	New Building	\$874,107	\$39,087	\$835,020
J & H Plumbing	New Building	49,000	0	49,000
Donnell Inc.	New Building	220,000	0	220,000
Scott's Electric	New Building	135,159	0	135,159
		<u>\$1,278,266</u>	<u>\$39,087</u>	<u>\$1,239,179</u>

**NOTE 21 - CONTINGENCIES**

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, 2003.

**NOTE 22 - STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education</i>				
Child & Adult Care Food Program	21-CP-2002	10.558	\$ 6,703	\$ 9,605
Total U.S. Department of Agriculture			<u>6,703</u>	<u>9,605</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
21st Century Community Learning Centers	N/A	84.287	450,390	446,880
			<u>108,301</u>	<u>106,456</u>
			558,692	553,336
<i>Passed Through Ohio Department of Education:</i>				
Entry Year	G2-S3-2003	84.276	16,000	7,178
Entry Year	GS-S3-2001			4,075
<i>Total Passed Through Ohio Department of Education</i>			<u>16,000</u>	<u>11,253</u>
Total U.S Department of Education			<u>574,692</u>	<u>564,588</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>				
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Title XIX Medical Assistance Program	N/A	93.778	<u>3,878</u>	<u>3,878</u>
Total U.S. Department of Health and Human Services			<u>3,878</u>	<u>3,878</u>
<b>Totals</b>			<b><u>\$ 585,272</u></b>	<b><u>\$ 578,072</u></b>

*The accompanying notes to this schedule are an integral part of this schedule.*

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2003**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the Center's federal awards programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – MATCHING REQUIREMENTS**

Certain Federal programs require that the Center contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Preble County Educational Service Center  
Preble County  
101 East Main Street  
Eaton, Ohio 45320

To the Board of Education:

We have audited the financial statements of Preble County Educational Service Center, Preble County, Ohio (the Center), as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated February 25, 2004, in which we noted the Center adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

February 25, 2004



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Preble County Educational Service Center  
Preble County  
101 East Main Street  
Eaton, Ohio 45320

To the Board of Education:

#### Compliance

We have audited the compliance of Preble County Educational Service Center, Preble County, Ohio (the Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2003. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2003.

#### Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

February 25, 2004



**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2003**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	21 <sup>st</sup> Century Community Learning Centers Grant, CFDA #84.287
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.





**Auditor of State  
Betty Montgomery**

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**PREBLE COUNTY EDUCATIONAL SERVICE CENTER**

**PREBLE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 11, 2004**