

**Preble County
Educational Service Center
Financial Statements
June 30, 2010**



Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Preble County Educational Service Center, prepared by Joseph Decosimo and Company, LLC, for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

February 25, 2011

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Preble County Educational Service Center

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Report of Independent Accountants

Board of Education
Preble County Educational Service Center
Eaton, Ohio

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Preble County Educational Service Center, as of and for the year ended June 30, 2010, which collectively comprise Preble County Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Preble County Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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.

As discussed in Note 2C, Preble County Educational Service Center prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of Preble County Educational Service Center as of June 30, 2010, and the respective changes in financial position - modified cash basis thereof for the year then ended, in conformity with the basis of accounting described in Note 2C.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2010, on our consideration of Preble County Educational Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and on pages 38 through 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

Joseph Decossimo and Company, LLC

Cincinnati, Ohio
December 28, 2010

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

The discussion and analysis of the Preble County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- Due to cuts in funding and school district services, the Educational Service Center was forced to cut staffing levels.
- Receipts decreased 11 percent from fiscal year 2009.
- Eighty-eight percent of the Educational Service Center's disbursements are covered by program cash receipts, which include grant receipts and charges to local school districts for the services provided to their students.

Using this Annual Financial Report

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

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Educational Service Center as a whole. Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Educational Service Center as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns. The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanations and details regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Educational Service Center has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Educational Service Center's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

As a result of using the modified cash basis of accounting, certain assets and their related receipts (such as accounts receivable) and certain liabilities and their related disbursements (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Educational Service Center as a Whole

Statement of Net Assets and Statement of Activities – Modified Cash Basis

The statement of net assets and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2010, within the limitations of the modified cash basis of accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental function. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Educational Service Center's general receipts.

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Fiduciary Funds

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

The Educational Service Center as a Whole

Recall that the statement of net assets provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets as of year end 2010 compared to 2009:

Table 1
Net Assets

	2010	2009	Change
Assets			
Current and Other Assets	\$347,571	\$374,058	(\$26,487)
Capital Assets, Net	1,348,272	1,442,822	(94,550)
<i>Total Assets</i>	<u>1,695,843</u>	<u>1,816,880</u>	<u>(121,037)</u>
Liabilities			
Long-Term Liabilities	<u>1,247,000</u>	<u>1,278,000</u>	<u>(31,000)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	101,272	164,822	(63,550)
Restricted	44,885	42,342	2,543
Unrestricted	302,686	331,716	(29,030)
<i>Total Net Assets</i>	<u>\$448,843</u>	<u>\$538,880</u>	<u>(\$90,037)</u>

Current and other assets consist of the cash balance of the Educational Service Center at June 30, 2010. Cash decreased seven percent as disbursements outpaced receipts as explained on the next page. Capital assets decreased due to current year depreciation.

Long-term liabilities represent the liability of the lease-purchase agreement, which funded the Educational Service Center's facilities. The change is the amount of the fiscal year 2010 principal payment.

Overall, net assets declined \$90,037, of which \$63,550 was decreased in invested in capital assets, net of related debt. Restricted net assets consist of the remaining State and Federal grant balances which have restrictions on how the monies can be spent and this amount increased slightly. Unrestricted net assets represent General Fund monies available at June 30, 2010 to be spent for any purpose needed, and it decreased nine percent. Page 7 gives details about the current operations of the General Fund.

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Table 2 shows the changes in net assets for fiscal year 2010 compared to fiscal year 2009.

Table 2
Changes in Net Assets

	2010	2009	Change
Receipts			
Program Receipts:			
Charges for Services	\$3,499,259	\$3,845,852	(\$346,593)
Operating Grants and Contributions	614,420	768,244	(153,824)
<i>Total Program Receipts</i>	<u>4,113,679</u>	<u>4,614,096</u>	<u>(500,417)</u>
General Receipts			
Grants and Entitlements not Restricted to Specific Programs	393,432	418,431	(24,999)
Interest	897	5,731	(4,834)
Gifts and Donations	1,127	903	224
Miscellaneous	58,484	96,598	(38,114)
<i>Total General Receipts</i>	<u>453,940</u>	<u>521,663</u>	<u>(67,723)</u>
<i>Total Receipts</i>	<u>4,567,619</u>	<u>5,135,759</u>	<u>(568,140)</u>
Program Disbursements			
Instruction:			
Regular	385,887	468,621	(82,734)
Special	974,328	1,107,161	(132,833)
Support Services:			
Pupils	937,666	1,085,478	(147,812)
Instructional Staff	1,118,221	1,123,211	(4,990)
Board of Education	30,566	25,246	5,320
Administration	407,777	419,826	(12,049)
Fiscal	194,790	193,196	1,594
Business	2,435	7,005	(4,570)
Operation and Maintenance of Plant	115,958	109,121	6,837
Pupil Transportation	402,841	643,455	(240,614)
Central	10,171	22,239	(12,068)
Operation of Non-Instructional Services	7,463	7,550	(87)
Extracurricular Activities	2,662	2,928	(266)
Interest and Fiscal Charges	66,891	68,284	(1,393)
<i>Total Disbursements</i>	<u>4,657,656</u>	<u>5,283,321</u>	<u>(\$625,665)</u>
<i>Decrease in Net Assets</i>	(90,037)	(147,562)	
<i>Net Assets at Beginning of Year</i>	<u>538,880</u>	<u>686,442</u>	
<i>Net Assets at End of Year</i>	<u>\$448,843</u>	<u>\$538,880</u>	

Governmental Activities

Overall, receipts decreased \$568,140, with charges for services having the largest change from fiscal year 2009, decreasing by \$346,593. Charges for services represent amounts charged to local school districts for services provided by the Educational Service Center. One of the school districts did not contract with the Educational Service Center during fiscal year 2010 for transportation of special education students. Also, the Educational Service Center eliminated the gifted program and the school districts each had their own program.

Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Operating grants and contributions were the other main receipts that decreased during fiscal year 2010. The majority of this decrease was due to the Educational Service Center not receiving a 21st century community learning centers grant in fiscal year 2010 as in prior fiscal years.

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

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

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

The Educational Service Center's Funds

The Educational Service Center's funds are accounted for using the modified cash basis of accounting. The only major fund for the Educational Service Center is the General Fund. The General Fund accounted for 95 percent of fiscal year 2010 receipts and 96 percent of disbursements. Fund balance of the General Fund decreased \$29,030 due mainly to a reduction in State foundation money caused by cuts at the State Level.

Capital Assets

At June 30, 2010, the Educational Service Center had \$1,348,272 invested in capital assets in the form of land, buildings, furniture, fixtures, and equipment, and vehicles. Overall capital assets decreased \$94,550 from June 30, 2009, with the majority of that decrease (\$91,122) being from current year depreciation. Due to reductions in receipts, the Educational Service Center was unable to purchase additional or replace existing capital assets during the fiscal year. For more information on capital assets, see Note 5 of the Basic Financial Statements.

Debt Administration

At June 30, 2010, the Educational Service Center had a lease-purchase agreement outstanding with the Columbus Regional Airport Authority in the amount of \$1,247,000. The lease-purchase agreement financed the building of a new facility for the Educational Service Center. Principal payments made during the fiscal year amounted to \$31,000. The lease-purchase agreement was originally dated April 24, 2003, and will be retired on January 1, 2032. For more information on the Educational Service Center's debt, see Notes 10 and 11 of the Basic Financial Statements.

**Preble County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

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 modified cash basis financial picture and to show the Educational Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Terri Freeman, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at pbbo_tf@swoca.net.

Preble County Educational Service Center
Statement of Net Assets - Modified Cash Basis
June 30, 2010

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 347,571
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	1,280,316
<i>Total Assets</i>	1,695,843
Liabilities	
Due Within One Year	32,000
Due In More Than One Year	1,215,000
<i>Total Liabilities</i>	1,247,000
Net Assets	
Invested in Capital Assets, Net of Related Debt	101,272
Restricted for Preble County Professional Development Center	12,049
Restricted for Title II-A	24,935
Restricted for Other Purposes	7,901
Unrestricted	302,686
<i>Total Net Assets</i>	\$ 448,843

The accompanying notes are an integral part of the basic financial statements.

Preble County Educational Service Center
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2010

	<u>Program Cash Receipts</u>			Net (Disbursements) Receipts and Changes in Net Assets
	<u>Cash Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities				
Instruction:				
Regular	\$ 385,887	\$ 259,218	\$ 323,456	\$ 196,787
Special	974,328	1,782,822	224,000	1,032,494
Support Services:				
Pupils	937,666	891,239	39,380	(7,047)
Instructional Staff	1,118,221	336,608	9,667	(771,946)
Board of Education	30,566	-	-	(30,566)
Administration	407,777	28,814	1,977	(376,986)
Fiscal	194,790	-	-	(194,790)
Business	2,435	-	-	(2,435)
Operation and Maintenance of Plant	115,958	17,022	-	(98,936)
Pupil Transportation	402,841	183,536	11,367	(207,938)
Central	10,171	-	4,573	(5,598)
Operation of Non-Instructional Services	7,463	-	-	(7,463)
Extracurricular Activities	2,662	-	-	(2,662)
Interest and Fiscal Charges	66,891	-	-	(66,891)
Totals	<u>\$ 4,657,656</u>	<u>\$ 3,499,259</u>	<u>\$ 614,420</u>	<u>(543,977)</u>
General Receipts				
Grants and Entitlements not Restricted to Specific Programs				393,432
Interest				897
Gifts and Donations				1,127
Miscellaneous				58,484
Total General Receipts				<u>453,940</u>
Change in Net Assets				(90,037)
Net Assets at Beginning of Year				<u>538,880</u>
Net Assets at End of Year				<u>\$ 448,843</u>

The accompanying notes are an integral part of the basic financial statements.

Preble County Educational Service Center
Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
June 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 302,686	\$ 44,885	\$ 347,571
Fund Balances			
Reserved for Encumbrances	\$ 90,143	\$ 26,216	\$ 116,359
Unreserved, Undesignated, Reported in:			
General Fund	212,543	-	212,543
Special Revenue Funds	-	18,669	18,669
<i>Total Fund Balances</i>	<u>\$ 302,686</u>	<u>\$ 44,885</u>	<u>\$ 347,571</u>

The accompanying notes are an integral part of the basic financial statements.

Preble County Educational Service Center
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities - Modified Cash Basis
 June 30, 2010

Total Governmental Fund Balance	\$	347,571
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Land	67,956	
Buildings	1,421,609	
Furniture, Fixtures, and Equipment	136,090	
Vehicles	497,405	
Accumulated Depreciation	<u>(774,788)</u>	
Total Capital Assets		1,348,272

Capital leases are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(1,247,000)</u>
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<i>Net assets of Governmental Activities</i>	\$	<u><u>448,843</u></u>
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The accompanying notes are an integral part of the basic financial statements.

Preble County Educational Service Center
Statement of Cash Receipts, Disbursements and Changes in Fund Balances -
Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
Receipts			
Intergovernmental	\$ 854,786	\$ 153,066	\$ 1,007,852
Interest	897	-	897
Tuition and Fees	3,379,984	-	3,379,984
Rent	17,022	-	17,022
Gifts and Donations	1,127	-	1,127
Charges for Services	17,383	84,870	102,253
Miscellaneous	58,484	-	58,484
<i>Total Receipts</i>	<u>4,329,683</u>	<u>237,936</u>	<u>4,567,619</u>
Disbursements			
Current:			
Instruction:			
Regular	312,130	64,939	377,069
Special	972,371	1,799	974,170
Support Services:			
Pupils	871,716	60,719	932,435
Instructional Staff	1,060,198	42,798	1,102,996
Board of Education	30,566	-	30,566
Administration	366,976	19,725	386,701
Fiscal	190,085	1,737	191,822
Business	2,435	-	2,435
Operation and Maintenance of Plant	112,585	1,464	114,049
Pupil Transportation	360,516	6,643	367,159
Central	4,564	4,573	9,137
Operation of Non-Instructional Services	6,482	-	6,482
Extracurricular Activities	2,662	-	2,662
Debt Service:			
Principal	31,000	-	31,000
Interest and Fiscal Charges	66,891	-	66,891
<i>Total Disbursements</i>	<u>4,391,177</u>	<u>204,397</u>	<u>4,595,574</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(61,494)</u>	<u>33,539</u>	<u>(27,955)</u>
Other Financing Sources (Uses)			
Proceeds from the Sale of Capital Assets	1,468	-	1,468
Advances In	32,132	1,136	33,268
Advances Out	(1,136)	(32,132)	(33,268)
<i>Total Other Financing Sources (Uses)</i>	<u>32,464</u>	<u>(30,996)</u>	<u>1,468</u>
<i>Net Change in Fund Balances</i>	(29,030)	2,543	(26,487)
<i>Fund Balances at Beginning of Year</i>	<u>331,716</u>	<u>42,342</u>	<u>374,058</u>
<i>Fund Balances at End of Year</i>	<u>\$ 302,686</u>	<u>\$ 44,885</u>	<u>\$ 347,571</u>

The accompanying notes are an integral part of the basic financial statements.

Preble County Educational Service Center
 Reconciliation of the Statement of Cash Receipts, Disbursements and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis
 For the Fiscal Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (26,487)

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

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

Depreciation (91,122)

The proceeds from the sale of capital assets are reported as receipts in the governmental funds. However, the cost of the capital assets are removed from the capital assets account in the statement of net assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the statement of activities. Thus, the change in net assets differs from the change in fund balance by the carrying value of the assets sold. (3,428)

Repayment of long-term debt is reported as a disbursement in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 31,000

Change in Net Assets of Governmental Activities \$ (90,037)

The accompanying notes are an integral part of the basic financial statements.

Preble County Educational Service Center
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
June 30, 2010

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 1,041	<u><u>\$ 6,218</u></u>
Liabilities		
Undistributed Monies	<u>0</u>	<u><u>\$ 6,218</u></u>
Net Assets		
Held in Trust for Scholarships	<u><u>\$ 1,041</u></u>	

The accompanying notes are an integral part of the basic financial statements.

Preble County Educational Service Center
Statement of Changes in Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2010

	Private Purpose Trust
Additions	
Gifts and Donations	\$ 1,000
Interest	2
<i>Total Additions</i>	1,002
Deductions	
Payments in Accordance with Trust Agreements	500
<i>Change in Net Assets</i>	502
<i>Net Assets at Beginning of Year</i>	539
<i>Net Assets at End of Year</i>	\$ 1,041

The accompanying notes are an integral part of the basic financial statements.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

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

Reporting Entity

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

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

The Educational Service Center participates in three jointly governed organizations, two insurance purchasing pools, and one shared risk pool. These organizations are the Southwest Ohio Computer Association, the Southwestern Ohio Educational Purchasing Council, the Southwestern Ohio Instructional Technology Association, the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan, the Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program, and the Preble County Schools Regional Council of Governments. Information about these organizations is presented in Notes 12, 13, and 14 to the basic financial statements.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

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

The statement of net assets presents the cash balance, capital assets, and debt of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities compares disbursements with program receipts for each function of the Educational Service Center's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the Educational Service Center's general receipts.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Educational Service Center divides its funds into two categories: governmental and fiduciary.

Governmental Funds

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

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

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

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds

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

C. Basis of Accounting

The Educational Service Center's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Educational Service Center's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Educational Service Center are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related receipts (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related disbursements (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Cash and Cash Equivalents

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

During fiscal year 2010, investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2010.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2010 were \$897, which includes \$85 assigned from other Educational Service Center funds.

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

E. Capital Assets

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. General capital assets generally result from disbursements in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets - modified cash basis but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$1,500. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

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

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

F. Interfund Receivables/Payables

The Educational Service Center reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Long-Term Obligations

Long-term obligations are reported in the government-wide financial statements. The Educational Service Center reported a liability for a lease-purchase agreement for the construction of a building.

H. Net Assets

Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for federal and state grants restricted to cash disbursement for specified purposes. The Educational Service Center's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Fund Balance Reserves

The Educational Service Center reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

J. Internal Activity

Internal allocations of overhead disbursements from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Employer Contributions to Cost-Sharing Pension Plans

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

L. Estimates

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

NOTE 3 - STATE AND LOCAL SCHOOL DISTRICT FUNDING

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

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

The Educational Service Center may contract with city, exempted village, local, joint vocational, or cooperative education school districts to provide special education and related services or career-technical educational services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active monies are public monies determined to be necessary to meet current demands upon the Educational Service Center treasury. Active monies must be maintained either as cash in the Educational Service Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

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

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Investments

As of June 30, 2010, the Educational Service Center's only investment was \$347,571 with STAROhio. The average maturity of STAROhio at June 30, 2010 was 56 days.

Interest Rate Risk

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

Credit Risk

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

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2010 was as follows:

	Balance at 6/30/2009	Additions	Deletions	Balance at 6/30/2010
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$67,956	\$0	\$0	\$67,956
Capital Assets Being Depreciated:				
Buildings	1,421,609	0	0	1,421,609
Furniture, Fixtures, and Equipment	145,072	0	(8,982)	136,090
Vehicles	547,259	0	(49,854)	497,405
Total Capital Assets Being Depreciated	2,113,940	0	(58,836)	2,055,104
Less Accumulated Depreciation				
Buildings	(237,290)	(47,373)	0	(284,663)
Furniture, Fixtures, and Equipment	(100,857)	(9,074)	6,561	(103,370)
Vehicles	(400,927)	(34,675)	48,847	(386,755)
Total Accumulated Depreciation	(739,074)	(91,122) *	55,408	(774,788)
Total Capital Assets Being Depreciated, Net	1,374,866	(91,122)	(3,428)	1,280,316
Total Capital Assets, Net	\$1,442,822	(\$91,122)	(\$3,428)	\$1,348,272

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$8,818
Special	158
Support Services:	
Pupils	4,278
Instructional Staff	15,225
Administration	21,076
Fiscal	2,968
Operation and Maintenance of Plant	1,909
Pupil Transportation	34,675
Central	1,034
Operation of Non-Instructional Services	981
Total Depreciation	\$91,122

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During fiscal year 2010, the Educational Service Center contracted with the Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program (Note 13) for general liability, property, and fleet insurance.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There have been no significant changes in coverage from the last fiscal year.

B. Workers' Compensation

For fiscal year 2010, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2010, the Educational Service Center participated in the Preble County Schools Regional Council of Governments (the Council), a shared risk pool consisting of five local School Districts and the Educational Service Center (See Note 14). The Educational Service Center pays monthly premiums to the Council for employee medical benefits. The Council is responsible for the management and operations of the program. Upon withdrawal from the Council, a participant is responsible for the payment of all Council liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$131,562, \$107,978, and \$115,502, respectively; 100 percent has been contributed for each fiscal year.

B. State Teachers Retirement System of Ohio

Plan Description – The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

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

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy – For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2010, 2009, and 2008 were \$233,822, \$235,510, and \$259,726, respectively; 100 percent has been contributed for each fiscal year.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2010, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 8 - POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401(h). For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800.

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

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$22,600, \$72,954, and \$71,722, respectively; 100 percent has been contributed for each fiscal year.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 8 - POST-EMPLOYMENT BENEFITS (continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$7,824, \$7,780, and \$8,322, respectively; 100 percent has been contributed for each fiscal year.

B. State Teachers Retirement System of Ohio

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$17,986, \$18,116, and \$19,979, respectively; 100 percent has been contributed for each fiscal year.

NOTE 9 - EMPLOYEE BENEFITS

A. Dental Care

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

B. Life Insurance

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

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 10 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In fiscal year 2003, the Educational Service Center entered into a lease-purchase agreement for the construction of a new building. The Educational Service Center is leasing the project site from Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the project during the lease term. The Educational Service Center will make semi-annual lease payments to US Bank.

The agreement is recorded on the statement of net assets as “Due Within One Year” and “Due In More Than One Year.” Principal payments made during fiscal year 2010 totaled \$31,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$1,247,000.

The asset acquired through capital lease is as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Building	\$1,421,609	\$284,663	\$1,136,946

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, 2010.

Fiscal Year Ending June 30,	Long-Term Obligations
2011	\$97,405
2012	97,807
2013	97,111
2014	97,306
2015	97,358
2016-2020	483,457
2021-2025	480,549
2026-2030	477,644
2031-2032	188,931
Total minimum lease payments	2,117,568
Less: amount representing interest and charges	(870,568)
Present value of minimum lease payments	\$1,247,000

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 11 - LONG-TERM OBLIGATIONS

The only long-term obligation the Educational Service Center has is a capital lease. During fiscal year 2010, the Educational Service Center made \$31,000 in principal payments which reduced the balance of the lease from \$1,278,000 at June 30, 2009 to \$1,247,000 at June 30, 2010. The amount due within one year is \$32,000. The capital lease will be paid from the General Fund.

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

A. Southwest Ohio Computer Association

The Educational Service Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts and educational service centers within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among members. The governing board of SWOCA consists of one representative from each entity plus one representative from the fiscal agent. The Educational Service Center paid SWOCA \$9,499 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA, at 3607 Hamilton-Middletown Road, Hamilton, Ohio 45011.

B. Southwestern Ohio Educational Purchasing Council

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts in 18 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations during the one year period. Payments to the SOEPC are made from the General Fund. During fiscal year 2010, the Educational Service Center paid \$930 to SOEPC for membership dues. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS (continued)

C. Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of 21 representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2010, the Preble County Educational Service Center did not make any payments to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

NOTE 13 - INSURANCE PURCHASING POOLS

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

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

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 13 - INSURANCE PURCHASING POOLS (continued)

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

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program (LFP). The LFP's business and affairs are conducted by a six member committee consisting of various LFP representatives that are elected by the general assembly. The purpose of the Property, Fleet, and Liability Program of the SOEPC is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participants.

NOTE 14 - SHARED RISK POOL

Preble County Schools Regional Council of Governments

The Preble County Schools Regional Council of Governments (the Council), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center. The Council is governed by an advisory committee consisting of each member's superintendent or designee from each participant. Premiums are paid on a monthly basis to the Council and their designated insurance company. The Council is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Council may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Council. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

NOTE 15 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall modified cash basis financial position of the Educational Service Center at June 30, 2010.

B. Litigation

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

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 16 - COMPLIANCE

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

NOTE 17 - INTERFUND ACTIVITY

At June 30, 2010, the General Fund had an unpaid interfund cash advance, in the amount of \$1,136, for a short-term loan made to Other Governmental Funds. This is expected to be received within one year. During fiscal year 2010, Other Governmental Funds returned advances made during fiscal year 2009 to the General Fund in the amount of \$32,132.

NOTE 18 - SUBSEQUENT EVENTS

The Educational Service Center has evaluated subsequent events for potential recognition and disclosure through December 28, 2010, the date the financial statements were available to be issued.

Required Supplementary Information

Preble County Educational Service Center
Schedule of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$ -	\$ -	\$852,036	(\$852,036)
Interest	-	-	974	(974)
Tuition and Fees	-	-	3,379,984	(3,379,984)
Rent	-	-	17,022	(17,022)
Gifts and Donations	-	-	1,127	(1,127)
Charges for Services	-	-	17,383	(17,383)
Miscellaneous	-	-	58,484	(58,484)
<i>Total Receipts</i>	-	-	4,327,010	(4,327,010)
Disbursements				
Current:				
Instruction:				
Regular	157,178	314,168	314,168	-
Special	908,344	975,259	975,259	-
Support Services:				
Pupils	793,963	887,431	887,431	-
Instructional Staff	995,378	1,067,226	1,067,226	-
Board of Education	36,485	33,495	33,495	-
Administration	373,981	387,147	387,147	-
Fiscal	199,418	191,865	191,865	-
Business	5,400	2,435	2,435	-
Operation and Maintenance of Plant	169,609	124,743	124,743	-
Pupil Transportation	383,185	378,945	378,945	-
Central	48,906	11,542	11,542	-
Operation of Non-Instructional Services	8,000	6,482	6,482	-
Extracurricular Activities	3,215	2,662	2,662	-
Debt Service:				
Principal	31,000	31,000	31,000	-
Interest and Fiscal Charges	67,000	66,891	66,891	-
<i>Total Disbursements</i>	4,181,062	4,481,291	4,481,291	-
<i>Excess of Receipts Under Disbursements</i>	(4,181,062)	(4,481,291)	(154,281)	4,327,010
Other Financing Sources (Uses)				
Proceeds from the Sale of Capital Assets	-	-	1,468	1,468
Advances In	-	-	32,132	32,132
Advances Out	(100)	(178,630)	(1,136)	177,494
Other Financing Uses	(67,013)	-	-	-
<i>Total Other Financing Sources (Uses)</i>	(\$67,113)	(\$178,630)	32,464	\$211,094
<i>Net Change in Fund Balance</i>			(121,817)	
<i>Fund Balance at Beginning of Year</i>			262,237	
<i>Prior Year Encumbrances Appropriated</i>			69,465	
<i>Fund Balance at End of Year</i>			<u>\$209,885</u>	

See accompanying notes to the required supplementary information.

Preble County Educational Service Center
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2010

NOTE 1 - BUDGETARY PROCESS

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

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Governing Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The Board does not approve estimated resources. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The schedule of receipts, disbursements and changes in fund balance – budget and actual – budget basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis) and unrecorded cash which represents amounts received and spent but not included on the budget basis operating statement. These amounts are included as receipts and disbursements on the modified cash basis operating statement.

The following table summarizes the adjustments necessary to reconcile the modified cash basis statements to the budgetary basis statements for the General Fund.

Preble County Educational Service Center
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2010

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING (continued)

Net Change in Fund Balance

	<u>General</u>
Modified Cash Basis	(\$29,030)
Unrecorded Cash FY 2009 - Revenue	151
Unrecorded Cash FY 2010 - Revenue	(2,824)
Unrecorded Cash FY 2009 - Expense	(137)
Unrecorded Cash FY 2010 - Expense	166
Adjustment for Encumbrances	<u>(90,143)</u>
Budget Basis	<u><u>(\$121,817)</u></u>

Internal Control and Compliance

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

Board of Education
Preble County Educational Service Center
Eaton, Ohio

We have audited the modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Preble County Educational Service Center as of and for the year ended June 30, 2010, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated December 28, 2010, wherein, we noted the Educational Service Center uses a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Educational Service Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Center's internal control over financial reporting.

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

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

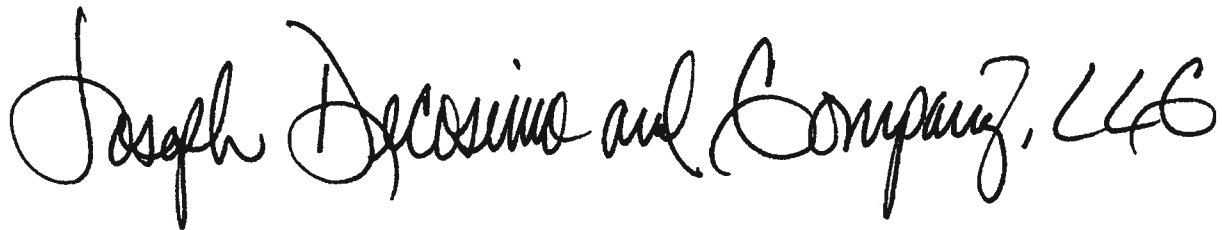
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item #2010-001.

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

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

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

Cincinnati, Ohio
December 28, 2010

Preble County Educational Service Center
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2010

Finding # 2010-001

Noncompliance

Criteria

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

Ohio Revised Code, Section 117-2-03 (B), requires the Educational Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America.

Condition

For fiscal year ended June 30, 2010, the Educational Service Center was not in compliance with the criteria and requirements listed above.

Cause

For fiscal year ended June 30, 2010, the Educational Service Center prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Effect

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

Context

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

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

Preble County Educational Service Center

Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2010

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i></u>
2009-01	Ohio Admin. Code Section 117-2-03(B) Failure to report in accordance with generally accepted accounting principles	No	Not corrected - Re-issued as Finding 2010-001.



Dave Yost • Auditor of State

PREBLE COUNTY EDUCATIONAL SERVICE CENTER

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 10, 2011