

**Preble County
Educational Service Center**

**Modified Cash Basis
Financial Statements**

June 30, 2013



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Preble County Educational Service Center, Preble County, prepared by Joseph Decosimo and Company, LLC, for the audit period July 1, 2012 through June 30, 2013. 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

March 2, 2015

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Preble County Educational Service Center

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Independent Auditor's Report

Board of Education
Preble County Educational Service Center
Eaton, Ohio

Report on the Financial Statements

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, (the Educational Service Center) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Preble County Educational Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Preble County Educational Service Center as of June 30, 2013, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 15 to the financial statements, effective July 1, 2012, the Educational Service Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*," Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*," Statement No. 65, "*Items Previously Reported as Assets and Liabilities*," and Statement No. 66, "*Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*." Our opinion is not modified with respect to this matter.

Other Matters*Other Information*

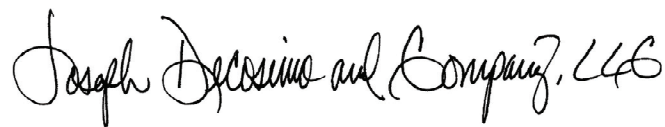
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Educational Service Center's basic financial statements. The financial information presented in the tables of net position and changes in net position included in Management's Discussion and Analysis (pages 5 and 6), and the budgetary comparison schedules (pages S-2 through S-5) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The financial information presented in the tables of net position, changes in net position, and governmental activities included in Management's Discussion and Analysis, and the budgetary comparison schedules, are the responsibility of management and were derived from and relates directly to underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.



Cincinnati, Ohio
December 22, 2014

Preble County Educational Service Center
Management's Discussion and Analysis (unaudited)
For the Fiscal Year Ended June 30, 2013

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, 2013. 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 2013 are as follows:

- The Educational Service Center changed the fee structure for classroom programs.
- Enrollment in preschool and multiple disabilities programs increased.
- There were several changes in programs as well as new programs being added.
- The Educational Service Center is sharing a Treasurer with a local school district. This is the first full year of this shared service.

Using this Annual Financial Report

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

Report Components

The Statement of Net Position - Modified Cash Basis and the Statement of Activities - Modified Cash Basis 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 generally when cash is received or paid.

Preble County Educational Service Center
Management's Discussion and Analysis (unaudited)
For the Fiscal Year Ended June 30, 2013

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. 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 Position - Modified Cash Basis and Statement of Activities - Modified Cash Basis

The Statement of Net Position and the Statement of Activities reflect how the Educational Service Center did financially during fiscal year 2013, within the limitations of the modified cash basis of accounting. The Statement of Net Position - Modified Cash Basis presents the cash balances and investments of the governmental activities of the Educational Service Center at fiscal year-end. The Statement of Activities - Modified Cash Basis compares cash disbursements with program receipts for each governmental function. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Educational Service Center's general receipts.

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end available for spending in future periods. These funds are reported on a modified cash basis. The

Preble County Educational Service Center
Management's Discussion and Analysis (unaudited)
For the Fiscal Year Ended June 30, 2013

governmental fund statements provide a detailed short-term view of the Educational Service Center's general governmental operations and the basic services they provide. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the Educational Service Center. These funds are reported on a modified cash basis. Fiduciary funds are not reflected on the Government-wide Financial Statements because the resources of these funds are not available to support the Educational Service Center's programs.

The Educational Service Center as a Whole

Recall that the Statement of Net Position - Modified Cash Basis provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for fiscal year end 2013 compared to fiscal year end 2012:

Table 1
Net Position

	2013	2012	Change
Assets			
Current and Other Assets	\$494,024	\$331,162	\$162,862
Capital Assets, Net	1,103,773	1,177,219	(73,446)
<i>Total Assets</i>	<u>1,597,797</u>	<u>1,508,381</u>	<u>89,416</u>
Liabilities			
Long-Term Liabilities	1,146,000	1,181,000	(35,000)
Net Position			
Net Investment in Capital Assets	(42,227)	(3,781)	(38,446)
Restricted	41,001	35,508	5,493
Unrestricted	453,023	295,654	157,369
<i>Total Net Position</i>	<u>\$451,797</u>	<u>\$327,381</u>	<u>\$124,416</u>

Current and other assets consist of the cash balance of the Educational Service Center at June 30, 2013. Cash increased 49 percent as receipts outpaced disbursements due mainly to the Educational Service Center increasing services and an increase in enrollment. Capital assets decreased due to current year deletions and 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 2013 principal payment.

Overall, net position increased \$124,416, of which \$38,446 was a decrease in net investment in capital assets. This was due to a decrease in capital assets, net of depreciation, offset by a decrease in related long-term liabilities. Capital assets, net of depreciation, decreased due to current fiscal year deletions and depreciation.

Preble County Educational Service Center
Management's Discussion and Analysis (unaudited)
For the Fiscal Year Ended June 30, 2013

Restricted net position consists of the State and federal grant balances, which have restrictions on how the monies can be spent, and this amount increased slightly. Unrestricted net position increased 53 percent and represents General Fund monies available at June 30, 2013, to be spent for any purpose needed. The change in unrestricted net position was attributed to both an increase in enrollment and an increase in related programs that led to an increase of charges for services. Pension payments to SERS decreased during fiscal year 2013, which also helped in increasing unrestricted net position.

Table 2 shows the changes in net position for fiscal year 2013 compared to fiscal year 2012.

Table 2
Changes in Net Position

	2013	2012	Change
Receipts			
Program Receipts:			
Charges for Services	\$4,121,612	\$4,000,143	\$121,469
Operating Grants and Contributions	816,189	776,714	39,475
<i>Total Program Receipts</i>	<u>4,937,801</u>	<u>4,776,857</u>	<u>160,944</u>
General Receipts			
Grants and Entitlements not Restricted to Specific Programs	162,364	134,053	28,311
Interest	387	201	186
Gifts and Donations	859	259	600
Miscellaneous	28,640	44,396	(15,756)
<i>Total General Receipts</i>	<u>192,250</u>	<u>178,909</u>	<u>13,341</u>
<i>Total Receipts</i>	<u>5,130,051</u>	<u>4,955,766</u>	<u>174,285</u>
Program Disbursements			
Instruction:			
Regular	419,786	336,063	83,723
Special	821,624	869,927	(48,303)
Support Services:			
Pupils	1,279,747	1,144,562	135,185
Instructional Staff	1,095,721	1,138,242	(42,521)
Board of Education	22,571	24,535	(1,964)
Administration	564,637	539,610	25,027
Fiscal	171,171	198,196	(27,025)
Business	2,094	2,036	58
Operation and Maintenance of Plant	127,149	114,677	12,472
Pupil Transportation	411,307	409,560	1,747
Central	18,236	18,648	(412)
Operation of Non-Instructional Services	7,545	7,750	(205)
Extracurricular Activities	1,948	2,600	(652)
Interest and Fiscal Charges	62,099	63,796	(1,697)
<i>Total Disbursements</i>	<u>5,005,635</u>	<u>4,870,202</u>	<u>\$135,433</u>
<i>Change in Net Position</i>	124,416	85,564	
<i>Net Position at Beginning of Year</i>	<u>327,381</u>	<u>241,817</u>	
<i>Net Position at End of Year</i>	<u>\$451,797</u>	<u>\$327,381</u>	

Preble County Educational Service Center
Management's Discussion and Analysis (unaudited)
For the Fiscal Year Ended June 30, 2013

Governmental Activities

Overall, receipts increased \$174,285, with charges for services having the largest change from fiscal year 2012, increasing by \$121,469. Charges for services represent amounts charged to participating school districts for services provided by the Educational Service Center. The increase in charges for services during fiscal year 2013 is due to the school districts' contracts being higher than in the previous fiscal year, as well as new services being provided by the Educational Service Center.

Beginning in fiscal year 2013, the fee for classroom programs was changed to a per day seat cost. An increase in enrollment in the preschool and multiple disabilities programs was the main factor in the increase in contracts with school districts.

New services in fiscal year 2013 included providing hearing interpreters for school districts as well as offering a daytime alternative program. Also, an expansion of other services, such as additional para-professional teachers, increased charges for services.

Operating grants increased during fiscal year 2013 mainly due to an increase in the amount of Teaching American History Grant monies received. Grants and Entitlements not Restricted to Specific Programs increased due to an increase in the mental health program and related programs revenues.

Overall disbursements increased by \$135,433 compared to fiscal year 2012 disbursements. Disbursements can fluctuate drastically from fiscal year to fiscal year depending on what services are added and expended on or reduced.

Regular instruction increased due to National Trail Local School District contracting for para-professional teachers, and the opening of the daytime alternative program. Special instruction decreased due to staff changes in some of the programs. Retiring staff was replaced with less experienced staff.

Pupils disbursements increased mainly due to the Educational Service Center's contracting with local school districts for hearing interpreters. This was a new program for fiscal year 2013. Instructional Staff disbursements decreased mainly due to the reduction in the number of student aides.

Administration disbursements increased as the result on an increase in the amount of the Teaching American History Federal Grant. The decrease in Fiscal disbursements is the result of the Educational Service Center jointly employing the Treasurer with one of the local school districts. The cost of the Treasurer is shared evenly between the two entities.

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

Preble County Educational Service Center
Management's Discussion and Analysis (unaudited)
For the Fiscal Year Ended June 30, 2013

The Educational Service Center's Funds

The Educational Service Center's funds are accounted for using the modified cash basis of accounting. The major funds for the Educational Service Center are the General and Title II-A funds. The General fund accounted for 93 percent of fiscal year 2013 receipts and disbursements.

Fund balance of the General Fund increased \$145,825 due mainly to increases in receipts as more programs were provided as well as increases in school district contracts. Disbursements increased as a result of new and expanded programs. The Title II-A fund accounted for 8 percent of total fund balances.

Capital Assets

At June 30, 2013, the Educational Service Center had \$1,103,773 invested in capital assets in the form of land, buildings, furniture, fixtures and equipment, and vehicles. Overall capital assets decreased \$73,446 from June 30, 2012, with the majority of that decrease being from current fiscal year depreciation. For more information on capital assets, see Note 5 of the Basic Financial Statements.

Debt Administration

At June 30, 2013, the Educational Service Center had a lease-purchase agreement outstanding with the Columbus Regional Airport Authority in the amount of \$1,146,000. 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 \$35,000. The lease-purchase agreement was originally dated April 24, 2003, and is expected to be retired on January 1, 2032. For more information on the Educational Service Center's debt, see Notes 10 and 11 of the Basic Financial Statements.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kerry M. Borger, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at Kerry.borger@preblecountyesc.org.

Preble County Educational Service Center
Statement of Net Position - Modified Cash Basis
June 30, 2013

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$494,024
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	<u>1,035,817</u>
<i>Total Assets</i>	<u>1,597,797</u>
Liabilities	
Due Within One Year	37,000
Due In More Than One Year	<u>1,109,000</u>
<i>Total Liabilities</i>	<u>1,146,000</u>
Net Position	
Net Investment in Capital Assets	(42,227)
Restricted for Other Purposes	41,001
Unrestricted	<u>453,023</u>
<i>Total Net Position</i>	<u><u>\$451,797</u></u>

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2013

	Program Cash Receipts			Net (Disbursements)
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Receipts and Changes in Net Position Total Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$419,786	\$383,580	\$197,927	\$161,721
Special	821,624	2,030,541	147,355	1,356,272
Support Services:				
Pupils	1,279,747	1,069,897	144,806	(65,044)
Instructional Staff	1,095,721	258,270	67,992	(769,459)
Board of Education	22,571	0	0	(22,571)
Administration	564,637	69,555	182,270	(312,812)
Fiscal	171,171	0	0	(171,171)
Business	2,094	0	0	(2,094)
Operation and Maintenance of Plant	127,149	18,555	0	(108,594)
Pupil Transportation	411,307	291,214	72,239	(47,854)
Central	18,236	0	3,600	(14,636)
Operation of Non-Instructional Services	7,545	0	0	(7,545)
Extracurricular Activities	1,948	0	0	(1,948)
Interest and Fiscal Charges	62,099	0	0	(62,099)
<i>Totals</i>	<u>\$5,005,635</u>	<u>\$4,121,612</u>	<u>\$816,189</u>	<u>(67,834)</u>
General Receipts				
Grants and Entitlements not Restricted to Specific Programs				162,364
Interest				387
Gifts and Donations				859
Miscellaneous				28,640
<i>Total General Receipts</i>				<u>192,250</u>
<i>Change in Net Position</i>				124,416
<i>Net Position at Beginning of Year</i>				<u>327,381</u>
<i>Net Position at End of Year</i>				<u><u>\$451,797</u></u>

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Assets and Fund Balances - Modified Cash Basis -
Governmental Funds
June 30, 2013

	General Fund	Title II-A	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$453,786	\$40,570	(\$332)	\$494,024
Fund Balances				
Nonspendable	\$130	\$0	\$0	\$130
Restricted	0	40,570	301	40,871
Assigned	58,397	0	0	58,397
Unassigned (Deficit)	395,259	0	(633)	394,626
<i>Total Fund Balances</i>	\$453,786	\$40,570	(\$332)	\$494,024

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
 Reconciliation of Total Governmental Fund Balances - Modified Cash Basis to
 Net Position of Governmental Activities - Modified Cash Basis
 June 30, 2013

Total Governmental Funds Balance	\$494,024
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Amounts reported for governmental activities in the statement of net position - modified cash basis 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	83,239
Vehicles	497,405
Accumulated Depreciation	<u>(966,436)</u>

Total Capital Assets	1,103,773
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Capital leases are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(1,146,000)</u>
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<i>Net Position of Governmental Activities</i>	<u><u>\$451,797</u></u>
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See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Cash Receipts, Disbursements and Changes in Fund Balances -
Modified Cash Basis -
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General Fund	Title II-A	Nonmajor Governmental Funds	Total Governmental Funds
Receipts				
Intergovernmental	\$635,191	\$0	\$343,362	\$978,553
Interest	387	0	0	387
Tuition and Fees	3,917,292	0	0	3,917,292
Rent	18,555	0	0	18,555
Gifts and Donations	859	0	0	859
Charges for Services	161,536	24,229	0	185,765
Miscellaneous	28,640	0	0	28,640
<i>Total Receipts</i>	<u>4,762,460</u>	<u>24,229</u>	<u>343,362</u>	<u>5,130,051</u>
Disbursements				
Current:				
Instruction:				
Regular	353,049	0	57,919	410,968
Special	821,624	0	0	821,624
Support Services:				
Pupils	1,258,523	0	19,481	1,278,004
Instructional Staff	996,724	19,236	67,152	1,083,112
Board of Education	22,571	0	0	22,571
Administration	360,039	0	183,166	543,205
Fiscal	168,269	0	0	168,269
Business	2,094	0	0	2,094
Operation and Maintenance of Plant	125,240	0	0	125,240
Pupil Transportation	388,255	0	0	388,255
Central	14,636	0	3,600	18,236
Operation of Non-Instructional Services	6,564	0	0	6,564
Extracurricular Activities	1,948	0	0	1,948
Debt Service:				
Principal	35,000	0	0	35,000
Interest and Fiscal Charges	62,099	0	0	62,099
<i>Total Disbursements</i>	<u>4,616,635</u>	<u>19,236</u>	<u>331,318</u>	<u>4,967,189</u>
<i>Net Change in Fund Balances</i>	145,825	4,993	12,044	162,862
<i>Fund Balances (Deficit) at Beginning of Year</i>	<u>307,961</u>	<u>35,577</u>	<u>(12,376)</u>	<u>331,162</u>
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$453,786</u>	<u>\$40,570</u>	<u>(\$332)</u>	<u>\$494,024</u>

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
 Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Fund Balances -
 Modified Cash Basis - Governmental Funds to the Statement of Activities - Modified Cash Basis
 For the Fiscal Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$162,862

Amounts reported for governmental activities in the statement of activities - modified cash basis are different because:

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

Capital Outlay	2,393	
Depreciation Disbursement	<u>(74,578)</u>	
Excess of Capital Outlay under Depreciation Disbursement		(72,185)

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

Loss on Disposal of Capital Assets		(1,261)
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Repayment of long-term debt is reported as a disbursement in governmental funds, but the repayment reduces long-term liabilities in the statement of net position - modified cash basis.

35,000

Change in Net Position of Governmental Activities

\$124,416

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Fiduciary Net Position - Modified Cash Basis -
Fiduciary Funds
June 30, 2013

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$863	<u><u>\$34,859</u></u>
Liabilities		
Undistributed Monies	<u>0</u>	<u><u>\$34,859</u></u>
Net Position		
Held in Trust for Scholarships	<u><u>\$863</u></u>	

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center
Statement of Changes in Fiduciary Net Position - Modified Cash Basis -
Fiduciary Funds
For the Fiscal Year Ended June 30, 2013

	Private Purpose Trust
Additions	
Gifts and Donations	\$80
Deductions	
	0
<i>Change in Net Position</i>	80
<i>Net Position at Beginning of Year</i>	783
<i>Net Position at End of Year</i>	\$863

See Accompanying Notes to the Basic Financial Statements

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

The Preble County ESC (the Educational Service Center) is located in Eaton, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to area school districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently. The Educational Service Center operates under a locally-elected Board of Education, 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 would be financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's Board of Education and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific benefits to, or impose specific financial burdens on, the primary government. The Educational Service Center has no component units.

The Educational Service Center participates in four jointly governed organizations, two insurance purchasing pools, and one shared risk pool. These organizations are presented in Notes 12, 13, and 14 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

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

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers'
Compensation Group Rating Plan

Southwestern Ohio Educational Purchasing Council Liability, Fleet and
Property Program

Shared Risk Pool:

Preble County Schools Regional Council of Governments

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) establishes accounting principles for state and local governments, which have been applied to the extent they are applicable to the modified cash basis of accounting. The more significant of the Educational Service Center's accounting policies are described below.

Basis of Presentation

The Educational Service Center's basic financial statements consist of Government-wide Financial Statements, including a Statement of Net Position - Modified Cash Basis and a Statement of Activities - Modified Cash Basis, and Fund Financial Statements - Modified Cash Basis, which provide a more detailed level of financial information.

Government-wide Financial Statements

The Statement of Net Position - Modified Cash Basis and the Statement of Activities - Modified Cash Basis 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 distinguish between those activities of the Educational Service Center that are governmental in nature and those that are considered business-type activities. The Educational Service Center, however, does not have any activities which are presented as business-type. Governmental activities generally are financed through intergovernmental receipts or other nonexchange transactions.

The Statement of Net Position - Modified Cash Basis 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 - Modified Cash Basis 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

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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.

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

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

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

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

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

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Fiduciary Funds

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

Basis of Accounting

The Educational Service Center's financial statements are prepared using the modified cash basis of accounting. Generally, 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 modifications made by the Educational Service Center to this basic approach 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 the modified cash basis financial statements.

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."

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.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

During fiscal year 2013, 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 net asset value per share, which is the price the investment could be sold for on June 30, 2013.

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 2013 were \$387, which includes \$67 assigned from other Educational Service Center funds.

Capital Assets

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. General capital assets generally result from disbursements in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position - 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. 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

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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 post-retirement health care benefits.

Net Position

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through 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 position restricted for other purposes includes 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 positions are available.

Fund Balance

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

Nonspendable

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

Restricted

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

Committed

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

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Educational Service Center did not have any committed fund balance at fiscal year-end.

Assigned

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

Unassigned

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

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

Accumulated Leave

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

Estimates and Uncertainties

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Educational Service Center, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of cash receipts and disbursements during the reporting period. Actual results could differ from those estimates.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Long-Term Obligations

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

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 \$6.5 times the school district's total student count and remits this amount to the Educational Service Center.

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

NOTE 4 - DEPOSITS AND INVESTMENTS

Monies held by the Educational Service Center are classified by State statute into three categories: active monies, inactive deposits and interim deposits.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or 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 or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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, 2013, the Educational Service Center's only investment was \$565,514 with STAROhio. The average maturity of STAROhio at June 30, 2013, was 57.5 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.

Reconciliation of Cash, Cash Equivalents and Investments

The following is a reconciliation of cash and investments to the Statement of Net Position - Modified Cash Basis as of June 30, 2013:

Investments (summarized above)	\$565,514
Carrying amount of the Educational Service Center's deposits	(71,490)
Equity in Pooled Cash and Cash Equivalents	<u>\$494,024</u>

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2013, was as follows:

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

	Balance at 6/30/2012	Additions	Deletions	Balance at 6/30/2013
<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	99,280	2,393	(18,434)	83,239
Vehicles	497,405	0	0	497,405
Total Capital Assets Being Depreciated	<u>2,018,294</u>	<u>2,393</u>	<u>(18,434)</u>	<u>2,002,253</u>
Less Accumulated Depreciation:				
Buildings	(379,409)	(47,373)	0	(426,782)
Furniture, Fixtures, and Equipment	(89,044)	(4,153)	17,173	(76,024)
Vehicles	<u>(440,578)</u>	<u>(23,052)</u>	<u>0</u>	<u>(463,630)</u>
Total Accumulated Depreciation	<u>(909,031)</u>	<u>(74,578) *</u>	<u>17,173</u>	<u>(966,436)</u>
Total Capital Assets Being Depreciated, Net	<u>1,109,263</u>	<u>(72,185)</u>	<u>(1,261)</u>	<u>1,035,817</u>
Total Capital Assets, Net	<u>\$1,177,219</u>	<u>(\$72,185)</u>	<u>(\$1,261)</u>	<u>\$1,103,773</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$8,818
Support Services:	
Pupils	4,136
Instructional Staff	12,259
Administration	20,521
Fiscal	2,902
Operation and Maintenance of Plant	1,909
Pupil Transportation	23,052
Operation of Non-Instructional Services	981
Total Depreciation	<u>\$74,578</u>

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

NOTE 6 - RISK MANAGEMENT

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 2013, 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.

Workers' Compensation

For fiscal year 2013, 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.

Medical Benefits

For fiscal year 2013, 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 (Note 14). The Educational Service Center pays monthly premiums to the Council for employee medical benefits. The Council is responsible for the management and operations of the program. Upon withdrawal from the Council, a participant is responsible for the payment of all Council liabilities to its employees, dependents and designated beneficiaries accruing as a result of withdrawal.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

School Employee Retirement System

Plan Description - The Educational Service Center participates in the School Employees Retirement System (SERS), a cost-sharing, multiple-employer, defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary, and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of SERS' funds (Pension Trust Fund, Death Benefit Fund, Medicare Part B Fund and Health Care Fund). For the fiscal year ended June 30, 2013, the allocation to pension and death benefits was 13.1 percent. The remaining 0.9 percent of the 14 percent employer contribution rate is allocated to the Medicare Part B and Health Care funds. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012 and 2011, were \$132,307, \$126,762 and \$115,930, respectively. The full amount has been contributed for fiscal years 2013, 2012 and 2011.

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 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 can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary multiplied by 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 DB Plan and the DC 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 payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Educational Service Center's required contributions to STRS Ohio for the DB Plan and for the DB portion of the Combined Plan was \$252,072 for the fiscal year ended June 30, 2013, \$256,762 for the fiscal year ended June 30, 2012, and \$258,212 for the fiscal year ended June 30, 2011. The full amount has been contributed for fiscal years 2013, 2012 and 2011.

Contributions to the DC and Combined Plans for fiscal year 2013 were \$9,493 made by the Educational Service Center plan members and \$13,290 made by the related school districts.

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, 2013, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

NOTE 8 - POST-EMPLOYMENT BENEFITS

School Employees Retirement System

Plan Description - The Educational Service Center participates in two cost-sharing, multiple-employer, defined benefit and other post-employment benefit (OPEB) plans administered by the School Employees Retirement System 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 obligation 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 can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 105(e). For fiscal year 2013, 0.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2013, this amount was \$20,525. During fiscal year 2013, the Educational Service Center paid \$17,564 in surcharge.

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 contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011, were \$24,020, \$20,400 and \$31,895, respectively. The full amount has been contributed for fiscal years 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The Educational Service Center contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012 and 2011, were \$7,502, \$7,516 and \$7,460, respectively. The full amount has been contributed for fiscal years 2013, 2012 and 2011.

State Teachers Retirement System of Ohio

Plan Description - The Educational Service Center participates in the cost-sharing, multiple-employer, defined benefit health plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The plan is included in the report of STRS Ohio, which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the health care plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to one percent of covered payroll to post-employment health care. The Educational Service Center contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011, were \$19,390, \$19,751 and \$19,862, respectively. The full amount has been contributed for fiscal years 2013, 2012 and 2011.

NOTE 9 - EMPLOYEE BENEFITS

Compensated Absences

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

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

Dental Care

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

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, 2013

125 Plan

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

NOTE 10 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In fiscal year 2003, the Educational Service Center entered into a lease-purchase agreement for the construction of a new building expiring in 2032. The Educational Service Center is leasing the project site from Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the project during the lease term. The Educational Service Center will make semi-annual lease payments to US Bank.

The agreement is recorded on the Statement of Net Position - Modified Cash Basis as “Due Within One Year” and “Due In More Than One Year.” Principal payments made during fiscal year 2013 totaled \$35,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$1,146,000.

The asset acquired through capital lease is as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Building	<u>\$1,421,609</u>	<u>\$426,782</u>	<u>\$994,827</u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2013:

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Fiscal Year Ending June 30,	Long-Term Obligations
2014	\$97,306
2015	97,358
2016	96,307
2017	97,140
2018	96,828
2019-2023	481,879
2024-2028	479,126
2029-2032	379,301
Total minimum lease payments	1,825,245
Less: amount representing interest and charges	(679,245)
Present value of minimum lease payments	<u>\$1,146,000</u>

NOTE 11 - LONG-TERM OBLIGATIONS

The only long-term obligation the Educational Service Center has is a capital lease. During fiscal year 2013, the Educational Service Center made \$35,000 in principal payments, which reduced the balance of the lease from \$1,181,000 at June 30, 2012, to \$1,146,000 at June 30, 2013. The amount due within one year is \$37,000. The capital lease will be paid from the General Fund.

NOTE 12 - 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. SWOCA 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 \$9,764 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.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

Southwestern Ohio Educational Purchasing Council

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the General Fund. During fiscal year 2013, the Educational Service Center paid \$300 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Southwestern Ohio Instructional Technology Association

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

All member districts are obligated to pay all fees, charges or other assessments as established by the SOITA. Upon dissolution, the net position shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2013, the 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.

Preble County Professional Development Consortium

The Educational Service Center is a participant in the Preble County Professional Development Consortium (PCPDC). PCPDC is an association of public school districts within the boundaries of Preble County. PCPDC was formed to improve staff development and instructional functions by making optimum use of public funds through cooperation of member public school districts.

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

The governing board of PCPDC consists of one representative from each district plus one representative from the fiscal agent. The Educational Service Center paid PCPDC \$7,049 for services provided during the fiscal year 2013. Financial information can be obtained from Kerry M. Borger, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at kerry.borger@preblecountyesc.org.

NOTE 13 - INSURANCE PURCHASING POOLS

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

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

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 LFP 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 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 Educational Service Center serves as coordinator of the Council. Financial information can be obtained from Kerry M. Borger, who serves as Treasurer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

NOTE 15 - CHANGES IN ACCOUNTING PRINCIPLES

Effective July 1, 2012, the Educational Service Center has implemented Governmental Accounting Standard Board (GASB) Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*," Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*," Statement No. 65, "*Items Previously Reported as Assets and Liabilities*," and Statement No. 66, "*Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*."

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the Educational Service Center's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the Educational Service Center's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the Educational Service Center's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the Educational Service Center's financial statements.

NOTE 16 - CONTINGENCIES

Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the amount of any such disallowed claims of the Educational Service Center at June 30, 2013, if applicable, cannot be determined at this time.

Preble County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Litigation

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

NOTE 17 - COMPLIANCE

Ohio Administrative Code, Section 117-2-03(B), requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Educational Service Center prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position/fund balances and disclosures which could be material but have not been 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 18 - FUND BALANCES

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

Fund Balances	General	Title II-A	Nonmajor Governmental Funds	Total
<i>Nonspendable</i>				
Unclaimed Monies	\$130	\$0	\$0	\$130
<i>Restricted for</i>				
Improving Teacher Quality	0	40,570	0	40,570
Transition Improvement	0	0	61	61
Preschool	0	0	240	240
<i>Total Restricted</i>	0	40,570	301	40,871
<i>Assigned to</i>				
Purchases on Order	58,397	0	0	58,397
<i>Unassigned</i>	395,259	0	(633)	394,626
<i>Total Fund Balances</i>	\$453,786	\$40,570	(\$332)	\$494,024

Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

NOTE 19 - ACCOUNTABILITY

The Race to the Top Fund had a deficit fund balance of \$633. Management expects the deficit in this fund to be corrected in fiscal year 2014. The General Fund is liable for any deficit in the fund and provides operating transfers when cash is needed, not when an accrual occurs.

NOTE 20 – SIGNIFICANT COMMITMENTS

Encumbrances

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

General Fund	\$58,397
Title II-A Fund	6,020
Nonmajor Governmental Funds	<u>78,792</u>
Total	<u>\$143,209</u>

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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$0	\$0	\$635,191	(\$635,191)
Interest	0	0	416	(416)
Tuition and Fees	0	0	3,917,292	(3,917,292)
Rent	0	0	18,555	(18,555)
Gifts and Donations	0	0	859	(859)
Charges for Services	0	0	21,880	(21,880)
Miscellaneous	0	0	165,100	(165,100)
<i>Total Receipts</i>	0	0	4,759,293	(4,759,293)
Disbursements				
Current:				
Instruction:				
Regular	285,355	419,458	369,458	50,000
Special	794,519	822,984	822,984	0
Support Services:				
Pupils	953,371	1,259,428	1,259,428	0
Instructional Staff	925,448	998,565	998,564	1
Board of Education	30,280	25,346	25,345	1
Administration	381,112	362,258	362,241	17
Fiscal	192,573	172,618	172,618	0
Business	1,700	2,294	2,294	0
Operation and Maintenance of Plant	157,625	132,390	132,389	1
Pupil Transportation	349,089	406,701	406,701	0
Central	35,189	17,131	17,130	1
Operation of Non-Instructional Services	5,000	6,564	6,564	0
Extracurricular Activities	4,050	1,948	1,948	0
Debt Service:				
Principal	35,000	35,000	35,000	0
Interest and Fiscal Charges	63,000	62,099	62,099	0
<i>Total Disbursements</i>	4,213,311	4,724,784	4,674,763	50,021
<i>Excess of Receipts Over (Under) Disbursements</i>	(\$4,213,311)	(\$4,724,784)	84,530	\$4,809,314
Other Financing Sources				
Refund of Prior Year Expenditures	\$0	\$3,643	3,643	\$0
Advances In	4,000	0	0	0
<i>Total Other Financing Sources</i>	\$4,000	\$3,643	3,643	\$0
<i>Net Change in Fund Balance</i>			88,173	
<i>Fund Balance at Beginning of Year</i>			183,276	
<i>Prior Year Encumbrances Appropriated</i>			123,934	
<i>Fund Balance at End of Year</i>			\$395,383	

See Accompanying Notes to the Supplementary Schedules

Preble County Educational Service Center
Schedule of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual - Budget Basis -
Title II-A Fund
For the Fiscal Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Charges for Services	\$0	\$0	\$24,229	(\$24,229)
Disbursements				
Current:				
Instruction:				
Instructional Staff	<u>1,113</u>	<u>25,256</u>	<u>25,256</u>	<u>0</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u><u>(\$1,113)</u></u>	<u><u>(\$25,256)</u></u>	<u><u>(1,027)</u></u>	<u><u>\$24,229</u></u>
<i>Net Change in Fund Balance</i>			(1,027)	
<i>Fund Balance at Beginning of Year</i>			34,459	
<i>Prior Year Encumbrances Appropriated</i>			<u>1,118</u>	
<i>Fund Balance at End of Year</i>			<u><u>\$34,550</u></u>	

See Accompanying Notes to the Supplementary Schedules

Preble County Educational Service Center

Notes to the Supplementary Schedules
For the Fiscal Year Ended June 30, 2013

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 of Education does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution, which is the Board of Education's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board of Education. The Board of Education does not approve estimated resources. The level of control has been established by the Board of Education at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The Schedule of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual - Budget Basis presented for the General and Title II-A Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances, which are treated as cash disbursements (budgetary basis) rather than restricted, committed or assigned fund balance (modified cash basis), and unrecorded cash, which represents amounts received and spent but not included on the budget basis operating statement. These amounts are included as receipts and disbursements on the modified cash basis operating statement.

The following table summarizes the adjustments necessary to reconcile the modified cash basis statements to the budgetary basis statements for the General Fund and the Title II-A Fund.

Preble County Educational Service Center

Notes to the Supplementary Schedules

For the Fiscal Year Ended June 30, 2013

Net Change in Fund Balance

	<u>General</u>	<u>Title II-A</u>
Modified Cash Basis	\$145,825	\$4,993
Unrecorded Cash FY 2012 - Revenue	476	0
Unrecorded Cash FY 2012 - Expense	269	0
Adjustment for Encumbrances	<u>(58,397)</u>	<u>(6,020)</u>
Budget Basis	<u>\$88,173</u>	<u>(\$1,027)</u>

**PREBLE COUNTY EDUCATIONAL
SERVICE CENTER**

**REPORT ON INTERNAL
CONTROL AND COMPLIANCE**

June 30, 2013

PREBLE COUNTY EDUCATIONAL SERVICE CENTER

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**INDEPENDENT AUDITOR'S REPORT 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, in accordance with the 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, 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 (the Educational Service Center) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements, and have issued our report thereon dated December 22, 2014, wherein, we noted that the Educational Service Center prepared its financial statements on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) and wherein we noted that the Educational Service Center adopted and implemented Governmental Accounting Standards Board (GASB) Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*," Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*," Statement No. 65, "*Items Previously Reported as Assets and Liabilities*," and Statement No. 66, "*Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*."

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Educational Service Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Center's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2013-002, that we consider to be a significant deficiency.

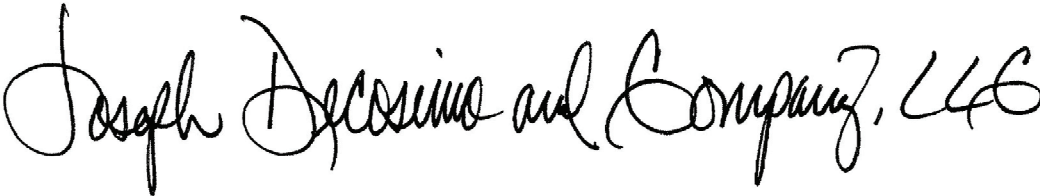
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free from 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*, which is described in the accompanying schedule of findings and responses as item 2013-001.

The Educational Service Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Educational Service Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Cincinnati, Ohio
December 22, 2014

PREBLE COUNTY EDUCATIONAL SERVICE CENTER

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2013

Finding # 2013-001 - Noncompliance

Criteria

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

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

Condition

For the fiscal year ended June 30, 2013, the Educational Service Center was not in compliance with the criteria and requirements listed above.

Cause

For the fiscal year ended June 30, 2013, the Educational Service Center prepared its financial statements on the modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Effect

In general, the modified cash basis records receipts when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Pursuant to Ohio Revised Code, Section 117.38, the Educational Service Center can be fined and subject to various other administrative remedies for failure to file the required financial reports.

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

The Preble County Educational Service Center has chosen to prepare its annual financial report on the modified cash basis for several reasons. The preparation of a full GAAP report is much more costly than the 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 the basis of accounting for our organization.

PREBLE COUNTY EDUCATIONAL SERVICE CENTER

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2013

Finding # 2013-002 - Significant Deficiency - Internal Control - Bank Reconciliation review

Criteria

An entity's internal control should be designed to prevent, or detect and correct, misstatements in the financial statement assertions. Maintaining an appropriate system of internal controls over treasury functions, including a review of the bank reconciliation, is an essential element of effective internal control over financial reporting.

Condition

During our audit, we noted that the Treasurer is responsible for performing wire transfers and reconciling the bank statements. The Educational Service Center does not have a mitigating control in the form a secondary review of the bank reconciliation by management or the Board.

Cause

Due to the small accounting team, the Educational Service Center does not always have personnel available to perform an independent review of the bank reconciliation.

Effect

In the absence of an independent review of the bank reconciliation, fraud, error or omission, material or immaterial to the financial statements taken as a whole, may occur and may not be detected by employees in the normal course of their duties.

Recommendation

Management should review and update its policies and procedures to ensure that adequate segregation of duties are in place.

Views of Responsible Officials and Planned Corrective Actions

Management concurs with the finding and will address in the upcoming fiscal year.

PREBLE COUNTY EDUCATIONAL SERVICE CENTER

SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2013

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Ohio Admin. Code Section 117-2-03(B) Failure to report in accordance with generally accepted accounting principles	No	Not corrected - Re-issued as Finding 2013-001.



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 12, 2015**