

**Preble County  
Educational Service Center**

**Modified Cash Basis  
Financial Statements**

**June 30, 2014**





# 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, 2013 through June 30, 2014. 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, 2014, 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, 2014, 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.

**Other Matters***Other Information*

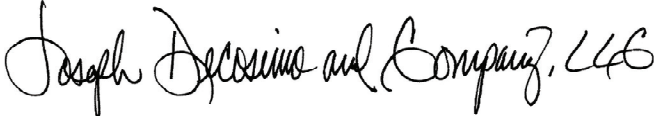
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Educational Service Center's basic financial statements. The financial information presented in the tables of net position and changes in net position included in Management's Discussion and Analysis (pages 5 and 6), and the budgetary comparison schedule (page S-2) 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 schedule, 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, 2014

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The discussion and analysis of the Preble County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2014. 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 2014 are as follows:

- The Daytime Alternative Education program saw a large increase in enrollment.
- Enrollment in the Special Education Preschool program continued to increase.
- The Mental Health Program, funded mostly by the Preble County Mental Health Board, was eliminated.
- The Educational Service Center received an Early Literacy and Reading Readiness State Grant in the amount of \$143,000.

### **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, 2014

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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 2014 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 fund is the General Fund.

*Governmental Funds*

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

**Preble County Educational Service Center**  
Management's Discussion and Analysis (unaudited)  
For the Fiscal Year Ended June 30, 2014

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 2014 compared to fiscal year end 2013:

Table 1  
Net Position

	2014	2013	Change
<b>Assets</b>			
Current and Other Assets	\$826,718	\$494,024	\$332,694
Capital Assets, Net	1,055,053	1,103,773	(48,720)
<i>Total Assets</i>	1,881,771	1,597,797	283,974
<b>Liabilities</b>			
Long-Term Liabilities	1,109,000	1,146,000	(37,000)
<b>Net Position</b>			
Net Investment in Capital Assets	(53,947)	(42,227)	(11,720)
Restricted	39,484	41,001	(1,517)
Unrestricted	787,234	453,023	334,211
<i>Total Net Position</i>	\$772,771	\$451,797	\$320,974

Current and other assets consist of the cash balance of the Educational Service Center at June 30, 2014. Cash increased 67 percent as receipts outpaced disbursements due mainly to the Educational Service Center increasing services and an increase in enrollment, as well as a late settlement payment being made. 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 2014 principal payment.

**Preble County Educational Service Center**  
Management's Discussion and Analysis (unaudited)  
For the Fiscal Year Ended June 30, 2014

Overall, net position increased \$320,974, of which \$11,720 was a decrease in net investment in capital assets. This was due to a decrease in capital assets, net of depreciation, offset by a decrease in long-term liabilities.

Restricted net position consists of the State and federal grant balances, which have restrictions on how the monies can be spent, and this amount decreased slightly. Unrestricted net position increased 74 percent and represents General Fund monies available at June 30, 2014, to be spent for any purpose needed. This increase was attributed to an increase of programs leading to an increase of charges for services and an increase in enrollment during fiscal year 2014.

Table 2 shows the changes in net position for fiscal year 2014 compared to fiscal year 2013.

Table 2  
Changes in Net Position

	2014	2013	Change
<b>Receipts</b>			
Program Receipts:			
Charges for Services	\$4,445,760	\$4,121,612	\$324,148
Operating Grants and Contributions	581,551	816,189	(234,638)
<i>Total Program Receipts</i>	<u>5,027,311</u>	<u>4,937,801</u>	<u>89,510</u>
General Receipts			
Grants and Entitlements not Restricted to Specific Programs	276,984	162,364	114,620
Interest	227	387	(160)
Gifts and Donations	1,841	859	982
Miscellaneous	27,326	28,640	(1,314)
<i>Total General Receipts</i>	<u>306,378</u>	<u>192,250</u>	<u>114,128</u>
<i>Total Receipts</i>	<u>5,333,689</u>	<u>5,130,051</u>	<u>203,638</u>
<b>Program Disbursements</b>			
Instruction:			
Regular	542,654	419,786	122,868
Special	1,474,403	821,624	652,779
Support Services:			
Pupils	1,049,454	1,279,747	(230,293)
Instructional Staff	485,518	1,095,721	(610,203)
Board of Education	25,134	22,571	2,563
Administration	651,663	564,637	87,026
Fiscal	172,639	171,171	1,468
Business	3,078	2,094	984
Operation and Maintenance of Plant	123,935	127,149	(3,214)
Pupil Transportation	402,200	411,307	(9,107)
Central	17,733	18,236	(503)
Operation of Non-Instructional Services	981	7,545	(6,564)
Extracurricular Activities	3,031	1,948	1,083
Interest and Fiscal Charges	60,292	62,099	(1,807)
<i>Total Disbursements</i>	<u>5,012,715</u>	<u>5,005,635</u>	<u>\$7,080</u>
<i>Change in Net Position</i>	320,974	124,416	
<i>Net Position at Beginning of Year</i>	451,797	327,381	
<i>Net Position at End of Year</i>	<u>\$772,771</u>	<u>\$451,797</u>	

**Preble County Educational Service Center**  
Management's Discussion and Analysis (unaudited)  
For the Fiscal Year Ended June 30, 2014

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**Governmental Activities**

Program receipts increased \$89,510, with charges for services having the largest change from fiscal year 2013, increasing by \$324,148. 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 2014 is due to an increase in enrollment, particularly in the Preschool Special Education program and the Daytime Alternative Education program. Also, approximately \$120,000 of the increase was due to the Educational Service Center receiving a settlement from one of the school districts served during fiscal year 2014 that was for fiscal year 2013 services.

Operating grants decreased during fiscal year 2014 mainly due to the elimination of the Positive Alternative to School Suspension (PASS) and mental health programs. Much of these programs were funded by other local governments.

Overall disbursements increased by \$7,080 compared to fiscal year 2013 disbursements. Disbursements can fluctuate drastically from fiscal year to fiscal year depending on what services are added and expended on or reduced. The Ohio Department of Education made various coding changes for disbursements during fiscal year 2014 which caused the large fluctuations between different disbursement lines. For example, in prior years, educational aides were posted to instructional staff, but during fiscal year 2014, this was changed to regular and special instruction.

Pupils disbursements decreased as a result of the elimination of the PASS program. Regular instruction increased due to the Educational Service Center receiving a new State grant for fiscal year 2014. Administration disbursements increased due to the increase in costs associated with the Teaching American History Grant that is administered by Miami University but the funds flow through the Educational Service Center.

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.

**The Educational Service Center's Funds**

The Educational Service Center's funds are accounted for using the modified cash basis of accounting. The major fund for the Educational Service Center is the General Fund. The General fund accounted for 89 percent of fiscal year 2014 receipts and 88 percent of disbursements.

Fund balance of the General Fund increased \$333,578 due mainly to increases in receipts as some programs were expanded, as well as increases in enrollment in programs offered. Also, the fiscal year 2013 settlement received in fiscal year 2014 was another reason for the increase. Disbursements decreased due to the elimination of the mental health program.

**Preble County Educational Service Center**  
Management's Discussion and Analysis (unaudited)  
For the Fiscal Year Ended June 30, 2014

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**Capital Assets**

At June 30, 2014, the Educational Service Center had \$1,055,053 invested in capital assets in the form of land, buildings, furniture, fixtures and equipment, and vehicles. Overall capital assets decreased \$48,720 from June 30, 2013, with the majority of that decrease being from current fiscal year depreciation. For more information on capital assets, see Note 6 of the Basic Financial Statements.

**Debt Administration**

At June 30, 2014, the Educational Service Center had a lease-purchase agreement outstanding with the Columbus Regional Airport Authority in the amount of \$1,109,000. 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 \$37,000. The lease-purchase agreement was originally dated April 24, 2003, and will be retired on January 1, 2032. For more information on the Educational Service Center's debt, see Notes 11 and 12 of the Basic Financial Statements.

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

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

**Preble County Educational Service Center**  
Statement of Net Position - Modified Cash Basis  
June 30, 2014

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$826,718
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	<u>987,097</u>
<i>Total Assets</i>	<u>1,881,771</u>
<b>Liabilities</b>	
Due Within One Year	39,000
Due In More Than One Year	<u>1,070,000</u>
<i>Total Liabilities</i>	<u>1,109,000</u>
<b>Net Position</b>	
Net Investment in Capital Assets	(53,947)
Restricted for Other Purposes	39,484
Unrestricted	<u>787,234</u>
<i>Total Net Position</i>	<u><u>\$772,771</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, 2014

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Position Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$542,654	\$556,964	\$131,000	\$145,310
Special	1,474,403	2,119,923	0	645,520
Support Services:				
Pupils	1,049,454	955,878	80,177	(13,399)
Instructional Staff	485,518	184,958	106,344	(194,216)
Board of Education	25,134	0	0	(25,134)
Administration	651,663	106,365	260,430	(284,868)
Fiscal	172,639	0	0	(172,639)
Business	3,078	0	0	(3,078)
Operation and Maintenance of Plant	123,935	25,819	0	(98,116)
Pupil Transportation	402,200	495,853	0	93,653
Central	17,733	0	3,600	(14,133)
Operation of Non-Instructional Services	981	0	0	(981)
Extracurricular Activities	3,031	0	0	(3,031)
Interest and Fiscal Charges	60,292	0	0	(60,292)
<i>Totals</i>	<u>\$5,012,715</u>	<u>\$4,445,760</u>	<u>\$581,551</u>	<u>14,596</u>
<b>General Receipts</b>				
Grants and Entitlements not Restricted to Specific Programs				276,984
Interest				227
Gifts and Donations				1,841
Miscellaneous				27,326
<i>Total General Receipts</i>				<u>306,378</u>
<i>Change in Net Position</i>				320,974
<i>Net Position at Beginning of Year</i>				<u>451,797</u>
<i>Net Position at End of Year</i>				<u><u>\$772,771</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, 2014

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$787,364	\$39,354	\$826,718
<b>Fund Balances</b>			
Nonspendable	\$130	\$0	\$130
Restricted	0	41,752	41,752
Committed	32,325	0	32,325
Assigned	30,832	0	30,832
Unassigned (Deficit)	724,077	(2,398)	721,679
<i>Total Fund Balances</i>	\$787,364	\$39,354	\$826,718

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, 2014

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<b>Total Governmental Funds Balance</b>	<b>\$826,718</b>
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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	95,811
Vehicles	497,405
Accumulated Depreciation	<u>(1,027,728)</u>

Total Capital Assets	1,055,053
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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>(1,109,000)</u>
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<i>Net Position of Governmental Activities</i>	<u><u>\$772,771</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, 2014

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Receipts</b>			
Intergovernmental	\$294,959	\$563,576	\$858,535
Interest	227	0	227
Tuition and Fees	4,218,408	0	4,218,408
Rent	25,819	0	25,819
Gifts and Donations	1,841	0	1,841
Charges for Services	182,648	18,885	201,533
Miscellaneous	26,747	579	27,326
<i>Total Receipts</i>	<u>4,750,649</u>	<u>583,040</u>	<u>5,333,689</u>
<b>Disbursements</b>			
Current:			
Instruction:			
Regular	396,294	142,403	538,697
Special	1,474,403	0	1,474,403
Support Services:			
Pupils	995,111	50,108	1,045,219
Instructional Staff	347,570	125,953	473,523
Board of Education	25,134	0	25,134
Administration	381,542	261,860	643,402
Fiscal	169,737	0	169,737
Business	3,078	0	3,078
Operation and Maintenance of Plant	122,026	0	122,026
Pupil Transportation	387,720	0	387,720
Central	14,133	3,600	17,733
Extracurricular Activities	3,031	0	3,031
Debt Service:			
Principal	37,000	0	37,000
Interest and Fiscal Charges	60,292	0	60,292
<i>Total Disbursements</i>	<u>4,417,071</u>	<u>583,924</u>	<u>5,000,995</u>
<i>Net Change in Fund Balances</i>	333,578	(884)	332,694
<i>Fund Balances at Beginning of Year</i>	453,786	40,238	494,024
<i>Fund Balances at End of Year</i>	<u>\$787,364</u>	<u>\$39,354</u>	<u>\$826,718</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, 2014

**Net Change in Fund Balances - Total Governmental Funds** \$332,694

*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	18,176	
Depreciation Disbursement	<u>(66,559)</u>	
Excess of Depreciation over Capital Outlay		(48,383)

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		(337)
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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.

37,000

*Change in Net Position of Governmental Activities* \$320,974

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, 2014

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	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,579	\$28,680
<b>Liabilities</b>		
Undistributed Monies	0	\$28,680
<b>Net Position</b>		
Held in Trust for Scholarships	\$1,579	

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, 2014

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	Private Purpose Trust
<b>Additions</b>	
Gifts and Donations	\$716
<b>Deductions</b>	
	0
<i>Change in Net Position</i>	716
<i>Net Position at Beginning of Year</i>	863
<i>Net Position at End of Year</i>	\$1,579

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, 2014

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**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 governing board, consisting of five members elected at-large for staggered four-year terms.

*Reporting Entity*

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

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

The Educational Service Center participates in four jointly governed organizations, two insurance purchasing pools, and one shared risk pool. These organizations are presented in Notes 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, 2014

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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 and those that are considered business-type. The Educational Service Center, however, does not have any activities that are presented as business-type. Governmental activities generally are financed through intergovernmental receipts or other 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, 2014

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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. 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 is the Educational Service Center's major governmental fund:

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

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

### *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



## **Preble County Educational Service Center**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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own programs. The Educational Service Center's only trust fund is a private purpose trust fund that accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for monies held for the Preble County Professional Development Consortium, 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. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2014, the Educational Service Center's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's net asset value per share, which is the price the investment could be sold for on June 30, 2014.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of investment earnings. Interest receipts credited to the General Fund during fiscal year 2014 were \$227, which includes \$17 assigned from other Educational Service Center funds.

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

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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### **Inventory and Prepaid Items**

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

### **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.

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

### **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.

### **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 8 and 9, the employer contributions include portions for pension benefits and for post-retirement health care benefits.

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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### **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.

### **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. Nonspendable fund balance for the Educational Service Center is unclaimed monies.

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

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

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

Unassigned (Deficit) – Unassigned (Deficit) 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 (deficit) classification is used only to report a deficit fund balance.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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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.

**Net Position**

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for federal and State grants restricted to cash disbursement for specified purposes.

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

**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.

**NOTE 3 - ACCOUNTABILITY**

The Public School Preschool Fund had a deficit fund balance of \$2,398. Management expects the deficit in this fund to be corrected in fiscal year 2015. 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 4 - 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

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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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 \$31.16 times the average daily membership of the Educational Service Center. This amount is then multiplied by a proration factor that is updated annually. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.5 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 5 - DEPOSITS AND INVESTMENTS**

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

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

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

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

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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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.

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, 2014, the Educational Service Center's only investment was \$887,616 with STAROhio. The average maturity of STAROhio at June 30, 2014, was 51.4 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.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

*Credit Risk*

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

*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, 2014:

Investments (summarized above)	\$887,616
Carrying amount of the Educational Service Center's deposits	<u>(60,898)</u>
Equity in Pooled Cash and Cash Equivalents	<u>\$826,718</u>

**NOTE 6 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2014, was as follows:

	<u>Balance at 6/30/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/2014</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	<u>\$67,956</u>	<u>\$0</u>	<u>\$0</u>	<u>\$67,956</u>
Capital Assets Being Depreciated:				
Buildings	1,421,609	0	0	1,421,609
Furniture, Fixtures, and Equipment	83,239	18,176	(5,604)	95,811
Vehicles	<u>497,405</u>	<u>0</u>	<u>0</u>	<u>497,405</u>
Total Capital Assets Being Depreciated	<u>2,002,253</u>	<u>18,176</u>	<u>(5,604)</u>	<u>2,014,825</u>
Less Accumulated Depreciation:				
Buildings	(426,782)	(47,373)	0	(474,155)
Furniture, Fixtures, and Equipment	(76,024)	(4,706)	5,267	(75,463)
Vehicles	<u>(463,630)</u>	<u>(14,480)</u>	<u>0</u>	<u>(478,110)</u>
Total Accumulated Depreciation	<u>(966,436)</u>	<u>(66,559) *</u>	<u>5,267</u>	<u>(1,027,728)</u>
Total Capital Assets Being Depreciated, Net	<u>1,035,817</u>	<u>(48,383)</u>	<u>(337)</u>	<u>987,097</u>
Total Capital Assets, Net	<u>\$1,103,773</u>	<u>(\$48,383)</u>	<u>(\$337)</u>	<u>\$1,055,053</u>

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

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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Instruction:	
Regular	\$9,247
Support Services:	
Pupils	4,235
Instructional Staff	11,995
Administration	20,810
Fiscal	2,902
Operation and Maintenance of Plant	1,909
Pupil Transportation	14,480
Operation of Non-Instructional Services	981
Total Depreciation	<u>\$66,559</u>

**NOTE 7 - 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 2014, 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 2014, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.



**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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**Medical Benefits**

For fiscal year 2014, 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 8 - 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 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](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10.0 percent of their annual covered salary, and the Educational Service Center is required to contribute 14.0 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 10.0 percent for plan members and 14.0 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, 2014, the allocation to pension and death benefits was 13.1 percent. The remaining 0.9 percent of the 14.0 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, 2014, 2013 and 2012, were \$121,477, \$132,307 and \$126,762, respectively. The full amount has been contributed for fiscal years 2014, 2013 and 2012.

**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

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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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](http://www.strsoh.org).

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary 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 of 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.

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 10.0 percent for members and 14.0 percent for employers. The statutory maximum employee contribution rate will be increased one percent each year beginning July 1, 2013, until it reaches 14.0 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11.0 percent of their annual covered salary. The Educational Service Center was required to contribute 14.0 percent; 13.0 percent was the portion used to fund pension obligations.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for fiscal years ended June 30, 2014, 2013 and 2012, were \$238,409, \$252,072 and \$256,762, respectively. The full amount has been contributed for fiscal years 2014, 2013 and 2012.

Contributions to the DC and Combined Plans for fiscal year 2014 were \$10,032 made by the Educational Service Center plan members and \$12,768 made by the Educational Service Center.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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**NOTE 9 - 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 (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans, including HMO's, PPO's, Medicare Advantage 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](http://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 14.0 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 2014, 0.14 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 2014, this amount was \$20,250. During Fiscal year 2014, the Educational Service Center paid \$16,334 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, 2014, 2013 and 2012, were \$23,231, \$24,020 and \$20,400, respectively. The full amount has been contributed for fiscal years 2014, 2013 and 2012.

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 2014, this actuarially required allocation was 0.76 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013 and 2012, were \$7,075, \$7,502 and \$7,516, respectively. The full amount has been contributed for fiscal years 2014, 2013 and 2012.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS 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 2014, STRS Ohio allocated employer contributions equal to 1.0 percent of covered payroll to post-employment health care. However, in March 2014, the Board elected to eliminate this allocation for fiscal year 2015. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012, were \$18,339, \$19,390 and \$19,751, respectively. The full amount has been contributed for fiscal years 2014, 2013 and 2012.

**NOTE 10 - 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.

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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**Life Insurance**

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

**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 11 - 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 2014 totaled \$37,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$1,109,000.

The asset acquired through capital lease is as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Building	<u>\$1,421,609</u>	<u>\$474,155</u>	<u>\$947,454</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, 2014:

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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Fiscal Year Ending June 30,	Long-Term Obligations
2015	\$97,358
2016	96,307
2017	97,140
2018	96,828
2019	97,374
2020-2024	480,604
2025-2029	478,402
2030-2032	283,926
Total minimum lease payments	1,727,939
Less: amount representing interest and charges	(618,939)
Present value of minimum lease payments	<u>\$1,109,000</u>

**NOTE 12 - LONG-TERM OBLIGATIONS**

The only long-term obligation the Educational Service Center has is a capital lease. During fiscal year 2014, the Educational Service Center made \$37,000 in principal payments, which reduced the balance of the lease from \$1,146,000 at June 30, 2013, to \$1,109,000 at June 30, 2014. The amount due within one year is \$39,000. The capital lease will be paid from the General Fund.

**NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE  
PURCHASING POOL**

**Jointly Governed Organizations**

*Southwest Ohio Computer Association*

The Educational Service Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts and educational service centers within the boundaries of Butler, Hamilton, Warren and Preble Counties. The 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 Board exercises total control over the operations of SWOCA including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the board. The Educational Service Center paid SWOCA \$10,058 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, 2014

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*Southwestern Ohio Educational Purchasing Council*

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

The Board exercises total control over the operations of SOEPC including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Board. 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 2014, 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. The Board exercises total control over the operations of SOITA including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Board.

All member districts are obligated to pay all fees, charges or other assessments as established by the SOITA. Upon dissolution, the net position shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2014, the Educational Service Center did not make any payments to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Frank DePalma, who serves as Interim Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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### *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. 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 \$7,002 for services provided during fiscal year 2014. 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](mailto:kerry.borger@preblecountyesc.org).

### **Insurance Purchasing Pools**

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

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

#### *Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program*

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Liability, Fleet, and Property Program (LFP). The LFP's business and affairs are conducted by a six-member committee consisting of various LFP representatives that are elected by the General Assembly. The purpose of the 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



**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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 Fiscal Officer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

**NOTE 15 - 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 as follows:

<u>Fund Balances</u>	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<i><b>Nonspendable</b></i>			
Unclaimed Monies	\$130	\$0	\$130
<i><b>Restricted for</b></i>			
Improving Teacher Quality	0	37,838	37,838
Miscellaneous State Grants	0	3,914	3,914
<i>Total Restricted</i>	0	41,752	41,752
<i><b>Committed to</b></i>			
Legal and Other Contracts	32,325	0	32,325
<i><b>Assigned to</b></i>			
Purchases on Order	30,832	0	30,832
<i>Unassigned</i>	724,077	(2,398)	721,679
<i>Total Fund Balances</i>	\$787,364	\$39,354	\$826,718

**NOTE 16 - 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:

**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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General Fund	\$63,160
Nonmajor Governmental Funds	<u>22,499</u>
Total	<u><u>\$85,659</u></u>

**NOTE 17 - 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, 2014, if applicable, cannot be determined at this time.

**Litigation**

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

**NOTE 18 - 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.

## **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, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Receipts</b>				
Intergovernmental	\$0	\$0	\$294,959	(\$294,959)
Interest	0	0	227	(227)
Tuition and Fees	0	0	4,218,408	(4,218,408)
Rent	0	0	25,819	(25,819)
Gifts and Donations	0	0	1,841	(1,841)
Charges for Services	0	0	20,784	(20,784)
Miscellaneous	0	0	179,266	(179,266)
<i>Total Receipts</i>	<u>0</u>	<u>0</u>	<u>4,741,304</u>	<u>(4,741,304)</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	359,210	397,987	397,282	705
Special	1,325,815	1,484,573	1,482,196	2,377
Support Services:				
Pupils	819,903	1,001,275	1,001,153	122
Instructional Staff	346,219	351,479	350,842	637
Board of Education	30,069	27,506	27,297	209
Administration	368,477	782,429	384,842	397,587
Fiscal	165,072	174,221	174,083	138
Business	2,900	3,168	3,167	1
Operation and Maintenance of Plant	135,596	145,379	137,380	7,999
Pupil Transportation	375,197	400,189	400,040	149
Central	22,384	17,363	16,626	737
Operation of Non-Instructional Services	5,000	5,000	5,000	0
Extracurricular Activities	4,045	3,031	3,031	0
Debt Service:				
Principal	37,000	37,000	37,000	0
Interest and Fiscal Charges	61,000	60,292	60,292	0
<i>Total Disbursements</i>	<u>4,057,887</u>	<u>4,890,892</u>	<u>4,480,231</u>	<u>410,661</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>\$ (4,057,887)</u>	<u>\$ (4,890,892)</u>	261,073	<u>\$ 5,151,965</u>
<b>Other Financing Sources</b>				
Refund of Prior Year Expenditures	<u>\$0</u>	<u>\$9,345</u>	9,345	<u>\$0</u>
<i>Net Change in Fund Balance</i>			270,418	
<i>Fund Balance at Beginning of Year</i>			395,383	
<i>Prior Year Encumbrances Appropriated</i>			58,397	
<i>Fund Balance at End of Year</i>			<u>\$724,198</u>	

See Accompanying Notes to the Supplementary Schedule

**Preble County Educational Service Center**

Notes to the Supplementary Schedule  
For the Fiscal Year Ended June 30, 2014

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**NOTE 1 – BUDGETARY PROCESS**

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

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board 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 Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances, which are treated as cash disbursements (budgetary basis) rather than restricted, committed or assigned fund balance (modified cash basis), and unrecorded cash, which represents amounts received and spent but not included on the budget basis operating statement. These amounts are included as receipts and disbursements on the modified cash basis operating statement.

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

**Preble County Educational Service Center**  
Notes to the Supplementary Schedule  
For the Fiscal Year Ended June 30, 2014

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Net Change in Fund Balance

	<u>General</u>
Modified Cash Basis	\$333,578
Adjustment for Encumbrances	<u>(63,160)</u>
Budget Basis	<u><u>\$270,418</u></u>

**PREBLE COUNTY EDUCATIONAL  
SERVICE CENTER**

**REPORT ON INTERNAL  
CONTROL AND COMPLIANCE**

**June 30, 2014**

# 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, 2014, 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).

**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 2014-002, that we consider to be a significant deficiency.

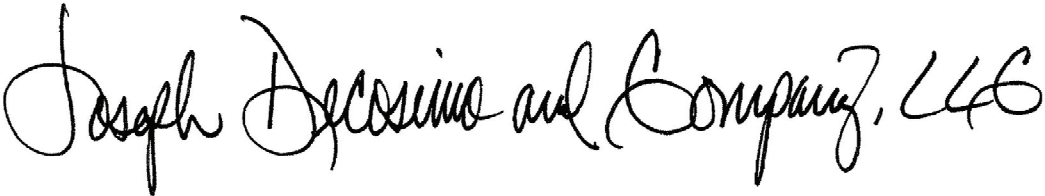
**Compliance and Other Matters**

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 2014-001.

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, 2014

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### **Finding # 2014-001 - 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, 2014, the Educational Service Center was not in compliance with the criteria and requirements listed above.

#### **Cause**

For the fiscal year ended June 30, 2014, 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 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 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, 2014

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### **Finding # 2014-002 - 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, 2014**

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Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	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 2014-001.
2013-002	Failed to perform an independent review of the bank reconciliation	No	Not corrected - Re-issued as Finding 2014-002.

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# 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**