



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

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

To the Governing Body:

We have audited the accompanying general-purpose financial statements of Preble County Educational Service Center, Preble County, Ohio (the Center), as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Center, as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2002 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the Center, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

December 20, 2002

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**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2002**

	<b>GOVERNMENTAL FUND TYPES</b>		
	<b>GENERAL</b>	<b>SPECIAL REVENUE</b>	<b>CAPITAL PROJECTS</b>
<b>Assets and Other Debits</b>			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$592,405	\$486,769	\$20,199
Receivables:			
Accounts	0	200	0
Intergovernmental	56,307	442,061	0
Interfund Receivable	231,267	0	0
Prepaid Items	5,794	304	0
Fixed Assets	0	0	0
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0
<b>Total Assets and Other Debits</b>	<b>\$885,773</b>	<b>\$929,334</b>	<b>\$20,199</b>
 <b>Liabilities, Fund Equity and Other Credits</b>			
Liabilities:			
Accounts Payable	\$32,656	\$79,428	\$0
Accrued Wages and Benefits Payable	259,590	23,783	0
Intergovernmental Payable	188,031	27,013	0
Interfund Payable	0	230,767	0
Undistributed Monies	0	0	0
Deferred Revenue	17,703	323,830	0
Compensated Absences Payable	9,799	355	0
<b>Total Liabilities</b>	<b>507,779</b>	<b>685,176</b>	<b>0</b>
Fund Equity and Other Credits:			
Investment in General Fixed Assets	0	0	0
Fund Balance:			
Reserved:			
Reserved for Encumbrances	114,629	241,214	0
Unreserved:			
Undesignated	263,365	2,944	20,199
<b>Total Fund Equity and Other Credits</b>	<b>377,994</b>	<b>244,158</b>	<b>20,199</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$885,773</b>	<b>\$929,334</b>	<b>\$20,199</b>

See Accompanying Notes to the General Purpose Financial Statements



FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
TRUST AND AGENCY			
\$29,901	\$0	\$0	\$1,129,274
0	0	0	200
0	0	0	498,368
0	0	0	231,267
0	0	0	6,098
0	731,377	0	731,377
0	0	93,107	93,107
<u>\$29,901</u>	<u>\$731,377</u>	<u>\$93,107</u>	<u>\$2,689,691</u>
\$0	\$0	\$0	\$112,084
0	0	0	283,373
0	0	15,202	230,246
500	0	0	231,267
28,253	0	0	28,253
0	0	0	341,533
0	0	77,905	88,059
<u>28,753</u>	<u>0</u>	<u>93,107</u>	<u>1,314,815</u>
0	731,377	0	731,377
1,000	0	0	356,843
148	0	0	286,656
<u>1,148</u>	<u>731,377</u>	<u>0</u>	<u>1,374,876</u>
<u>\$29,901</u>	<u>\$731,377</u>	<u>\$93,107</u>	<u>\$2,689,691</u>

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**PREBLE COUNTY EDUCATIONAL SERVICE CENTER**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPE	TOTAL (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	EXPENDABLE TRUST	
<b>Revenues:</b>					
Intergovernmental	\$937,554	\$795,611	\$58,500	\$0	\$1,791,665
Interest	30,795	0	0	23	30,818
Tuition and Fees	877,067	63,304	0	0	940,371
Gifts and Donations	0	3,033	0	0	3,033
Charges for Services	1,947,775	100,695	0	0	2,048,470
Miscellaneous	216,955	917	0	500	218,372
Total Revenues	<u>4,010,146</u>	<u>963,560</u>	<u>58,500</u>	<u>523</u>	<u>5,032,729</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	86,142	73,519	0	0	159,661
Special	1,026,673	9,116	0	0	1,035,789
Vocational	4,140	0	0	0	4,140
Adult/Continuing	0	32,433	0	0	32,433
Support Services:					
Pupils	902,032	524,311	0	0	1,426,343
Instructional Staff	886,026	232,117	0	0	1,118,143
Board of Education	20,570	0	0	0	20,570
Administration	384,248	1,287	0	0	385,535
Fiscal	184,791	12,351	0	0	197,142
Business	12,264	24,327	0	0	36,591
Operation and Maintenance of Plant	36,002	11,122	0	0	47,124
Pupil Transportation	538,500	6,221	0	0	544,721
Central	24,829	0	44,801	0	69,630
Non-Instructional Services	0	0	0	49	49
Extracurricular Activities	2,723	0	0	0	2,723
Total Expenditures	<u>4,108,940</u>	<u>926,804</u>	<u>44,801</u>	<u>49</u>	<u>5,080,594</u>
Excess of Revenues Over (Under) Expenditures	(98,794)	36,756	13,699	474	(47,865)
<b>Other Financing Sources:</b>					
Proceeds from Sale of Fixed Assets	<u>1,332</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,332</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(97,462)	36,756	13,699	474	(46,533)
Fund Balances at Beginning of Year (Restated - Note 3)	<u>475,456</u>	<u>207,402</u>	<u>6,500</u>	<u>674</u>	<u>690,032</u>
Fund Balances at End of Year	<u>\$377,994</u>	<u>\$244,158</u>	<u>\$20,199</u>	<u>\$1,148</u>	<u>\$643,499</u>

See Accompanying Notes to the General Purpose Financial Statements

**Preble County Educational Service Center**  
**Combined Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual**  
**All Governmental Fund Types and Expendable Trust Fund**  
**For the Fiscal Year Ended June 30, 2002**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b><u>Revenues:</u></b>						
Intergovernmental	\$888,341	\$933,676	\$45,335	\$1,193,572	\$787,621	(\$405,951)
Interest	25,000	33,606	8,606	0	0	0
Tuition and Fees	1,088,283	886,821	(201,462)	30,040	63,004	32,964
Gifts and Donations	0	0	0	3,479	3,033	(446)
Charges for Services	2,047,980	2,057,586	9,606	100,688	100,696	8
Miscellaneous	246,417	216,401	(30,016)	0	917	917
Total Revenues	<u>4,296,021</u>	<u>4,128,090</u>	<u>(167,931)</u>	<u>1,327,779</u>	<u>955,271</u>	<u>(372,508)</u>
<b><u>Expenditures:</u></b>						
Current:						
Instruction:						
Regular	107,499	92,836	14,663	120,637	78,841	41,796
Special	1,250,591	1,106,553	144,038	17,910	13,469	4,441
Vocational	4,087	4,087	0	0	0	0
Adult/Continuing	0	0	0	47,890	35,275	12,615
Support Services:						
Pupils	1,042,379	1,002,045	40,334	759,047	745,432	13,615
Instructional Staff	968,808	967,810	998	367,052	273,173	93,879
Board of Education	26,155	20,912	5,243	0	0	0
Administration	507,718	431,951	75,767	3,048	1,387	1,661
Fiscal	202,483	202,380	103	15,300	13,536	1,764
Business	13,996	12,235	1,761	25,304	24,327	977
Operation and Maintenance of Plant	46,954	39,019	7,935	14,331	11,122	3,209
Pupil Transportation	628,567	601,007	27,560	10,970	7,468	3,502
Central	49,450	48,504	946	0	0	0
Non-Instructional Services	0	0	0	0	0	0
Extracurricular Activities	3,557	2,723	834	0	0	0
Total Expenditures	<u>4,852,244</u>	<u>4,532,062</u>	<u>320,182</u>	<u>1,381,489</u>	<u>1,204,030</u>	<u>177,459</u>
Excess of Revenues Over (Under) Expenditures	<u>(556,223)</u>	<u>(403,972)</u>	<u>152,251</u>	<u>(53,710)</u>	<u>(248,759)</u>	<u>(195,049)</u>
<b><u>Other Financing Sources (Uses):</u></b>						
Proceeds from the Sale of Fixed Assets	0	1,332	1,332	0	0	0
Advances In	221,077	275,974	54,897	0	260,559	260,559
Advances Out	(261,059)	(261,059)	0	(250,942)	(250,942)	0
Other Financing Uses	(10,010)	0	10,010	(91)	0	91
Total Other Financing Sources (Uses)	<u>(49,992)</u>	<u>16,247</u>	<u>66,239</u>	<u>(251,033)</u>	<u>9,617</u>	<u>260,650</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(606,215)</u>	<u>(387,725)</u>	<u>218,490</u>	<u>(304,743)</u>	<u>(239,142)</u>	<u>65,601</u>
Fund Balances at Beginning of Year	571,146	571,146	0	167,501	167,501	0
Prior Year Encumbrances Appropriated	146,771	146,771	0	249,190	249,190	0
Fund Balances (Deficits) at End of Year	<u>\$111,702</u>	<u>\$330,192</u>	<u>\$218,490</u>	<u>\$111,948</u>	<u>\$177,549</u>	<u>\$65,601</u>

See Accompanying Notes to the General Purpose Financial Statements

Capital Projects Fund			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$33,468	\$58,500	\$25,032	\$0	\$0	\$0
0	0	0	0	23	23
0	0	0	0	0	0
0	0	0	1,500	0	(1,500)
0	0	0	0	0	0
0	0	0	0	500	500
<u>33,468</u>	<u>58,500</u>	<u>25,032</u>	<u>1,500</u>	<u>523</u>	<u>(977)</u>
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
8,000	0	8,000	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
57,000	44,801	12,199	0	0	0
0	0	0	1,194	1,000	194
0	0	0	0	0	0
<u>65,000</u>	<u>44,801</u>	<u>20,199</u>	<u>1,194</u>	<u>1,000</u>	<u>194</u>
<u>(31,532)</u>	<u>13,699</u>	<u>45,231</u>	<u>306</u>	<u>(477)</u>	<u>(783)</u>
0	0	0	0	0	0
0	0	0	0	500	500
(25,032)	(25,032)	0	0	0	0
0	0	0	0	0	0
<u>(25,032)</u>	<u>(25,032)</u>	<u>0</u>	<u>0</u>	<u>500</u>	<u>500</u>
(56,564)	(11,333)	45,231	306	23	(283)
0	0	0	671	671	0
<u>31,532</u>	<u>31,532</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>(25,032)</u>	<u>\$20,199</u>	<u>\$45,231</u>	<u>\$977</u>	<u>\$694</u>	<u>(\$283)</u>

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Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

The Preble County Educational Service Center (the “Educational Service Center”) is located in Eaton, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to area school districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally elected governing board consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 57 support staff employees, 34 certified teaching personnel, and 4 administrative personnel that provide services to the city and local school districts.

*Reporting Entity:*

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

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

The Educational Service Center participates in three jointly governed organizations, one insurance purchasing pool, and one shared risk pool. These organizations are the Southwest Ohio Computer Association, the Southwestern Ohio Educational Purchasing Council, the Southwestern Ohio Instructional Technology Association, the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan, and the Preble County Consortium. Information about these organizations is presented in Notes 15, 16, and 17 to the general purpose financial statements.

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Educational Service Center's accounting policies are described below.

**A. Basis Of Presentation - Fund Accounting**

The Educational Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Educational Service Center functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories of governmental and fiduciary.

*Governmental Fund Types:*

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. The acquisition, use, and balances of the Educational Service Center's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the Educational Service Center's governmental fund types:

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

*Special Revenue Funds* - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

*Capital Projects Fund* - The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the expendable trust fund).



Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

*Fiduciary Fund Types:*

Fiduciary funds are used to account for assets held by the Education Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. For the Educational Service Center, this consists of an expendable trust fund and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The Educational Service Center's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

*Account Groups:*

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

*General Fixed Assets Account Group* - This account group is established to account for all fixed assets of the Educational Service Center.

*General Long-Term Obligations Account Group* - This account group is established to account for all long-term obligations of the Educational Service Center.

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and fiduciary funds.

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

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

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

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue.

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

**C. Budgetary Process**

The Educational Service Center adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include the actual beginning of the fiscal year fund balance. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant. All funds, other than agency funds, are budgeted and appropriated.

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Educational Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

*Appropriations:*

The annual appropriation resolution is enacted by the Governing Board of the Educational Service Center at the fund and function level of expenditures. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center. Budgetary controls require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, must be approved by the Governing Board of the Educational Service Center. The Treasurer allocates the Board's appropriations to the object level.

The Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, monthly supplemental appropriations were enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

*Encumbrances:*

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

*Lapsing of Appropriations:*

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**D. Cash and Cash Equivalents**

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

During fiscal year 2002, the Educational Service Center's investments were limited to funds invested in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$30,795 which includes \$9,717 assigned from other funds.

For presentation on the combined balance sheet, investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

**E. Interfund Assets/Liabilities**

Short-term interfund loans are classified as "interfund receivables" and "interfund payables."

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure is reported in the year in which services are consumed.

**G. Fixed Assets and Depreciation**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not have any infrastructure.

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. Improvements are capitalized.

Assets in the general fixed assets account group are not depreciated.

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

**H. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that the benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

The current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

**I. Accrued Liabilities and Long-Term Obligations**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and the contractually required pension obligations that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have required the use of current available financial resources.

**J. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. The Educational Service Center had no residual equity or operating transfers.

**K. Fund Balance Reserves**

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

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

**L. Estimates**

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

**M. Total Columns on General Purpose Financial Statements**

Total columns on the general purpose financial statements are captioned “Total - (Memorandum Only)” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTE 3 –RESTATEMENTS OF FUND BALANCE**

Restatements of beginning fund balances in the general and special revenue funds were necessary due to errors in previous years.

The following table summarizes the changes to fund balances:

	General	Special Revenue
Fund Balance as previously reported	\$477,308	\$205,562
Restatements	(1,852)	1,840
Restated Fund Balance at June 30, 2001	\$475,456	\$207,402

**NOTE 4 - ACCOUNTABILITY**

The following funds had deficit fund balances at June 30, 2002:

Fund Type/Fund	Deficit
Special Revenue Funds:	
EMIS	\$325
Federal Title II Grant	1,984

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

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types and Expendable Trust Fund				
	General	Special Revenue	Capital Projects	Expendable Trust
GAAP Basis:	(\$97,462)	\$36,756	\$13,699	\$474
Adjustments:				
Revenue Accruals	120,415	(8,090)	0	0
Expenditure Accruals	(165,836)	31,795	0	49
Unrecorded Cash	(2,471)	(200)	0	0
Encumbrances	(259,742)	(309,020)	0	(1,000)
Prepays	2,456	0	0	0
Advances	14,915	9,617	(25,032)	500
Budget Basis	<u>(\$387,725)</u>	<u>(\$239,142)</u>	<u>(\$11,333)</u>	<u>\$23</u>

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

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

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

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

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

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



Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

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

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

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

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

*Deposits:* At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$9,262 and the bank balance was \$233,238. Of the bank balance:

1. \$100,456 was covered by federal depository insurance; and
2. \$132,782 was covered by specific pooled collateral.

*Investments:* The Educational Service Center's investments are categorized below to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value of the Educational Service Center's investment in STAR Ohio at June 30, 2002, was \$1,119,837.

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$1,129,274	\$0
Cash on Hand	(175)	0
Investments:		
STAR Ohio	(1,119,837)	1,119,837
GASB Statement No. 3	\$9,262	\$1,119,837

**NOTE 7 - STATE FUNDING**

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

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

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

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2002, consisted of interfund and intergovernmental grants and billings for user charged services. All receivables are considered collectible in full.

A summary of the principal items of the intergovernmental receivable follows:

	Amounts
General Fund:	
Miscellaneous Reimbursements	\$1,296
CAFS	3,878
Charges for Services	51,133
Total General Fund	56,307
Special Revenue Funds:	
Summer School	200
Preschool Grant	719
Literacy Grant	600
State Parent Mentor Grant	5,104
Eisenhower Grant	674
Miscellaneous Federal Grant	434,764
Total Special Revenue Funds	442,061
Total	\$498,368

**NOTE 9 - FIXED ASSETS**

A summary of the changes in general fixed assets during fiscal year 2002 follows:

Asset Category	Balance at 06/30/01	Additions	Deletions	Balance at 06/30/02
Furniture, Fixtures and Equipment	\$308,877	\$42,886	\$21,463	\$330,300
Vehicles	423,423	5,254	27,600	401,077
Total General Fixed Assets	\$732,300	\$48,140	\$49,063	\$731,377

**NOTE 10 - RISK MANAGEMENT**

**A. Property and Liability**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the Educational Service Center contracted with the Nationwide Insurance Agency, Inc.

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
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**NOTE 10 - RISK MANAGEMENT** (Continued)

Coverage provided by Nationwide Insurance is as follows:

Equipment Insurance (\$250 deductible)	\$270,000
Automobile Liability (\$50 comprehensive deductible, \$250 collision deductible)	1,000,000
Medical Payments	5,000
Uninsured Motorist Liability	1,000,000
Excess Hired and Primary Non-owned Automobile Liability	1,000,000
General Liability (aggregate)	5,000,000
General Liability (per occurrence)	2,000,000
Medical Payments (per person)	5,000
Fire Damage Limit (any one fire)	100,000

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

**B. Workers' Compensation**

For fiscal year 2002, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The Plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control and actuarial services to the GRP.

**C. Medical Benefits**

For fiscal year 2002, the Educational Service Center also participated in the Preble County Consortium (the Consortium), a shared risk pool consisting of five local school districts and an educational service center (See Note 17). The Educational Service Center pays monthly premiums to the Consortium for employee medical benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. In 2001, 4.2 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$83,749, \$21,692, and \$51,494 respectively; zero percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$63,939 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. This is the same percent used in 2001. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$180,534, \$215,029, and \$16,804 respectively; 92 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$14,617 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$85,516 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$146,195.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

**NOTE 13 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from the Educational Service Center's Board approved policies and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

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

**B. Health Care Benefits**

The Educational Service Center provides health insurance benefits to employees through the Preble County Consortium (the Consortium) (See Note 17). The premium varies with each employee depending on marital and family status.

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

**C. Life Insurance**

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

**NOTE 14 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2002 were as follows:

	Amount Outstanding 6/30/01	Additions	Deductions	Amount Outstanding 6/30/02
Intergovernmental Payable	\$14,096	\$15,202	\$14,096	\$15,202
Compensated Absences	74,257	3,648	0	77,905
Total General Long-Term Obligations	<u>\$88,353</u>	<u>\$18,850</u>	<u>\$14,096</u>	<u>\$93,107</u>

Compensated absences will be paid from the fund from which the person is paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the employee's salary is paid.

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
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**NOTE 15 - INTERFUND ACTIVITY**

As of June 30, 2002, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$231,267	\$0
Special Revenue Funds:		
EMIS	0	325
Summer School	0	2,823
Federal Miscellaneous Grants	0	227,619
Total Special Revenue Funds	<u>0</u>	<u>230,767</u>
Expendable Trust	<u>0</u>	<u>500</u>
Total All Funds	<u><u>\$231,267</u></u>	<u><u>\$231,267</u></u>

**NOTE 16 - 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 within the boundaries of Butler, Warren, and Preble Counties.

The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The Educational Service Center paid SWOCA \$16,150 for services provided during the year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2002, the Preble County Educational Service Center paid \$5,432 in fees to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton 45424.



Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS** (Continued)

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2002, the Preble County Educational Service Center paid \$276 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Straus, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**NOTE 17 - INSURANCE PURCHASING POOL**

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

**NOTE 18 - SHARED RISK POOL**

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

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

**NOTE 19 - OPERATING LEASE - LESSEE DISCLOSURE**

The Educational Service Center is the lessee in four operating leases. The first is with Northside Chapel for classroom space for the public preschool. The general leasing agreement states that the lessee agrees to pay to the lessor, monthly in advance, for 12 months, a monthly payment of \$500. The lease term was July 1, 2001 through June 30, 2002. Current rental costs for the fiscal year ended June 30, 2002, were \$6,000.

The second operating lease is with Don McMahan for the use of the Third Street School. The general leasing agreement states that the lessee agrees to pay to the lessor, monthly in advance, for 12 months, a monthly payment of \$4,400 for the months of September through May, and a monthly payment of \$2,200 for the months of June through August. Current rental costs for the fiscal year ended June 30, 2002, were \$46,200. This is a two year agreement for fiscal years 2002 and 2003.

The third operating lease is with Lauvon Mantle for the rent of an Alternative Education classroom. The general leasing agreement states that the lessee agrees to pay to the lessor, monthly in advance, for 12 months, a monthly payment of \$550. The lease term was July 1, 2001 through June 30, 2002. Current rental costs for the fiscal year ended June 30, 2002, were \$6,600.

Finally, the Educational Service Center is the lessee in an operating lease with the local school districts for the rental of classroom space. The general leasing agreement states that the lessee agrees to pay to the lessor \$5,000 per classroom. The lease term was July 1, 2001 through June 30, 2002. The Educational Service Center rented two classrooms at Twin Valley, one at National Trail, and one at Preble Shawnee. Current rental costs for the fiscal year ended June 30, 2002, were \$20,000.

The following is a summary of future rental payments at June 30, 2002:

<u>Year</u>	<u>Amount</u>
2003	\$46,200

**NOTE 20 - CONTINGENCIES**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2002.

Preble County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2002

**NOTE 21 – STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

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

**NOTE 22 – SUBSEQUENT EVENTS**

On July 1, 2002, the Preble County Educational Service Center relinquished its title as fiscal agent for the Preble County Family and Children First Council (Council). The Preble County Health District became the new designated administrative agent with Preble County as the new designated fiscal agent on this date. On June 28, 2002, the Preble County Educational Service Center wrote checks to the Health District to transfer the Council's funds. The Preble County Educational Service Center did not transfer all the funds to the Health District because of funding requirements of the "Help Me Grow Grant, Part C." The funding requirements of this grant required the Educational Service Center to serve as the fiscal agent of this grant until September 30, 2002. Hence, until that date the activity for this grant was required to run through the Educational Service Center. In order to address this matter, the Educational Service Center and the Health District entered into a service contract in which the Health District agreed to serve as Fiscal/Administrative Agent for services provided in regards to this grant from July 1, 2002 through September 30, 2002.

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**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education</i>				
Child & Adult Care Food Program	21-CP-2002	10.558	\$ 4,550	\$ 7,901
Total U.S. Department of Agriculture			<u>4,550</u>	<u>7,901</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
21st Century Community Learning Centers	2002	84.287	130,251	134,414
	2001		300,581	302,430
	2000		<u>67,291</u>	<u>67,291</u>
			498,123	504,135
<i>Passed Through Ohio Department of Education:</i>				
Entry Year	G2-S3-2001	84.276	0	18,025
Eisenhower Grant	MS-S1-2000	84.281	6,885	20,164
Total Passed Through Ohio Department of Education			<u>6,885</u>	<u>38,189</u>
Total U.S Department of Education			<u>505,008</u>	<u>542,324</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>				
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Title XIX Medical Assistance Program	N/A	93.778	<u>0</u>	<u>20,106</u>
Total U.S. Department of Health and Human Services			<u>0</u>	<u>20,106</u>
<b>Totals</b>			<b><u>\$ 509,558</u></b>	<b><u>\$ 570,331</u></b>

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

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2002**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards expenditures is a summary of the activity of the Educational Service Center's federal award programs. The schedule has been prepared on a cash basis of accounting.

**NOTE B – MATCHING REQUIREMENTS**

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



**STATE OF OHIO  
OFFICE OF THE AUDITOR**

**JIM PETRO, AUDITOR OF STATE**

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

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

To the Governing Body:

We have audited the financial statements of Preble County Educational Service Center, Preble County, Ohio (the Center), as of and for the year ended June 30, 2002, and have issued our report thereon dated December 20, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

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

Preble County Educational Service Center  
Preble County  
Report of Independent Accountants on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

**Jim Petro**  
Auditor of State

December 20, 2002





STATE OF OHIO  
OFFICE OF THE AUDITOR

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

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

To the Governing Body:

**Compliance**

We have audited the compliance of Preble County Educational Service Center, Preble County, Ohio (the Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

**Internal Control Over Compliance**

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

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

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

**Jim Petro**  
Auditor of State

December 20, 2002

**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 Section .505  
JUNE 30, 2002**

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

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

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

None.

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

None.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**PREBLE COUNTY EDUCATIONAL SERVICE CENTER**

**PREBLE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 9, 2003**