



**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2007**



**Mary Taylor, CPA**  
Auditor of State



EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center  
Hancock County  
7746 County Road 140  
Findlay, Ohio 45840-1978

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hancock County Educational Service Center, (the Educational Service Center), as of and for the year ended June 30, 2007, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Hancock County Educational Service Center, as of June 30, 2007, and the respective changes in financial position thereof 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 March 31, 2009, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Mary Taylor, CPA**  
Auditor of State

March 31, 2009

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED**

The discussion and analysis of the Hancock County Educational Service Center's (the Educational Service Center) financial performance provides an overall review of our Educational Service Center's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the 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 2007 are as follows:

- In total, net assets decreased \$18,005, which represents a 5 percent decrease from fiscal year 2006.
- Program specific revenues, in the form of charges for services and operating grants and contributions accounted for \$3,828,671, or 88 percent of total revenues.
- The Educational Service Center had \$4,349,806 in total expenses, 88 percent of which were offset by program specific charges for services and operating grants and contributions.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Educational Service Center's operations and activities as a whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the finances of the Educational Service Center and a longer-term view of those finances. Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and the available funds for long-term future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other nonmajor funds presented in total in a single column. This level of detail is meant to enhance the financial statements.

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

The statement of net assets and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to what are used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Educational Service Center as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors. Factors can be financial or non-financial. Non-financial factors include mandated educational programs, as well as locally requested programs.

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

All of the Educational Service Center's programs and services provided are reported as governmental activities. These activities include: instruction, support services, and non-instructional services.

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

Fund financial statements provide detailed information about the Educational Service Center's major fund, the General Fund.

All of the Educational Service Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's operations and the basic services it provides.

The relationship, or differences, between governmental activities reported on the statement of net assets and the statement of activities and in the governmental funds is reconciled in the financial statements.

**The Educational Service Center as a Whole**

Table 1 provides a summary of the Educational Service Center's net assets for fiscal year 2007 compared to fiscal year 2006.

<b>Table 1</b>		
<b>Net Assets</b>		
	<b>2007</b>	<b>2006</b>
<b>Assets:</b>		
Current and Other Assets	\$806,772	\$726,631
Capital Assets, Net	103,866	108,270
Total Assets	910,638	834,901
<b>Liabilities:</b>		
Current and Other Liabilities	404,689	368,415
Long-Term Liabilities	151,204	93,736
Total Liabilities	555,893	462,151
<b>Net Assets:</b>		
Invested in Capital Assets	103,866	108,270
Restricted	31,930	57,518
Unrestricted	218,949	206,962
Total Net Assets	\$354,745	\$372,750

Total assets increased \$75,737, or 9 percent. Total liabilities increased \$93,742 or 20 percent. Total net assets decreased \$18,005, or 5 percent.



**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2007 compared to fiscal year 2006.

**Table 2  
Change in Net Assets**

	<u>2007</u>	<u>2006</u>
<b>Revenues:</b>		
Program Revenues:		
Charges for Services and Sales	\$2,902,795	\$2,589,102
Operating Grants and Contributions	925,876	1,001,564
General Revenues:		
Grants and Entitlements	445,330	491,930
Interest	32,109	19,185
Miscellaneous	25,691	22,320
Total Revenues	<u>4,331,801</u>	<u>4,124,101</u>
<b>Program Expenses:</b>		
Instruction:		
Regular	125,966	134,065
Special	962,672	841,104
Support Services:		
Pupils	923,254	878,748
Instructional Staff	1,746,570	1,768,577
Board of Education	35,923	36,549
Administration	280,937	252,481
Fiscal	201,727	168,561
Operation and Maintenance of Plant	8,710	9,010
Pupil Transportation	46,191	2,155
Central	12,885	10,305
Non-Instructional	4,971	3,906
Total Expenses	<u>4,349,806</u>	<u>4,105,461</u>
Change in Net Assets	<u>(\$18,005)</u>	<u>\$18,640</u>

Total revenues increased \$207,700, or 5 percent. Program revenues have consistently accounted for in excess of 85 percent of total revenues for the last three fiscal years. Total expenses increased approximately 6 percent.

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

Table 3 indicates the total cost of services and the net cost of services. The statement of activities reflects the cost of program services and the charges for services and operating grants and contributions offsetting those services.

**Table 3  
Cost of Services**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
Instruction:				
Regular	\$125,966	(\$309,440)	\$134,065	(\$376,530)
Special	962,672	(2,372,233)	841,104	(2,205,469)
Support Services:				
Pupils	923,254	923,254	878,748	878,748
Instructional Staff	1,746,570	1,746,570	1,768,577	1,768,577
Board of Education	35,923	35,923	36,549	36,549
Administration	280,937	271,937	252,481	252,481
Fiscal	201,727	201,727	168,561	165,561
Operation and Maintenance of Plant	8,710	1,303	9,010	2,675
Pupil Transportation	46,191	22,643	2,155	(5,251)
Central	12,885	(340)	10,305	(1,624)
Non-Instructional Services	4,971	(209)	3,906	(922)
Total Expenses	<u>\$4,349,806</u>	<u>\$521,135</u>	<u>\$4,105,461</u>	<u>\$514,795</u>

A review of Table 3 reflects the net cost of instructional services was (\$2,681,673). At first glance, this would indicate the Educational Service Center received resources well in excess of that needed to support the instruction program. However, further review reflects a deficiency in support services of \$3,203,017. These activities support the Educational Service Center's ability to provide instruction. The net cost of activities of \$521,135, or 12 percent of total expenses was supported by general revenues.

**The Educational Service Center's Funds**

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Total revenues were \$4,364,196 and expenditures were \$4,311,984, which indicates the Educational Service Center had no difficulty in meeting current costs. The Educational Service Center's major fund, the General Fund, increased \$77,800. This change is considered significant and the increase was due to the administrative cost on the increased services provided to the schools.

**Capital Assets**

At the end of fiscal year 2007, the Educational Service Center had \$103,866 invested in capital assets (net of accumulated depreciation). For further information regarding the Educational Service Center's capital assets, see Note 7 to the basic financial statements.

**Debt**

The Educational Service Center had no debt in fiscal year 2007. The only long-term obligation of the Educational Service Center is related to compensated absences. For further information regarding the Educational Service Center's long-term obligations, see Note 12 to the basic financial statements.

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

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

This financial report is designed to provide citizens and taxpayers with a general overview of the Educational Service Center's finances and to reflect accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Gregory Spiess, Treasurer, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840-1978.

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**Statement of Net Assets  
June 30, 2007**

		<u><b>Governmental Activities</b></u>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$	591,623
Accounts Receivable		182,639
Prepaid Items		32,510
Depreciable Capital Assets, Net		103,866
<b>Total Assets</b>		<u><b>910,638</b></u>
<b>Liabilities:</b>		
Accounts Payable		20,012
Accrued Wages and Benefits Payable		318,136
Intergovernmental Payable		66,541
<b>Long Term Liabilities:</b>		
Due Within One Year		106,100
Due in More Than One Year		45,104
<b>Total Liabilities</b>		<u><b>555,893</b></u>
<b>Net Assets:</b>		
Invested in Capital Assets		103,866
Restricted For Other Purposes		31,930
Unrestricted		218,949
<b>Total Net Assets</b>	<b>\$</b>	<u><u><b>354,745</b></u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**Statement of Activities  
For the Fiscal Year Ended June 30, 2007**

	Program Revenues			Net(Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 125,966	\$ 360,845	\$ 74,561	\$ 309,440
Special	962,672	2,493,847	841,058	2,372,233
Support services:				
Pupils	923,254			(923,254)
Instructional Staff	1,746,570			(1,746,570)
Board of Education	35,923			(35,923)
Administration	280,937	9,000		(271,937)
Fiscal	201,727			(201,727)
Operation and Maintenance of Plant	8,710	7,407		(1,303)
Pupil Transportation	46,191	23,548		(22,643)
Central	12,885	6,250	6,975	340
Non-Instructional Services	4,971	1,898	3,282	209
Total Governmental Activities	\$ 4,349,806	\$ 2,902,795	\$ 925,876	\$ (521,135)
<b>General Revenues:</b>				
Grants and Entitlements not Restricted to Specific Programs				445,330
Investment Earnings				32,109
Miscellaneous				25,691
Total General Revenues				503,130
Change in Net Assets				(18,005)
Net Assets Beginning of Year				372,750
Net Assets End of Year				\$ 354,745

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**Balance Sheet  
Governmental Funds  
June 30, 2007**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 550,390	\$ 41,233	\$ 591,623
Accounts Receivable	182,639		182,639
Prepaid Items	32,089	421	32,510
Total Assets	<u>\$ 765,118</u>	<u>\$ 41,654</u>	<u>\$ 806,772</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts Payable	\$ 17,635	\$ 2,377	\$ 20,012
Accrued Wages and Benefits Payable	311,577	6,559	318,136
Intergovernmental Payable	65,753	788	66,541
Total Liabilities	<u>394,965</u>	<u>9,724</u>	<u>404,689</u>
Fund Balances:			
Reserved for Encumbrances	33,913	6,412	40,325
Unreserved Reported In			
General Fund	336,240		336,240
Special Revenue Funds		25,518	25,518
Total Fund Balances	<u>370,153</u>	<u>31,930</u>	<u>402,083</u>
Total Liabilities and Fund Balances	<u>\$ 765,118</u>	<u>\$ 41,654</u>	<u>\$ 806,772</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2007**

Total Governmental Fund Balances	\$	402,083
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		103,866
Long-term liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Compensated Absences Payable		<u>(151,204)</u>
Net Assets of Governmental Activities	\$	<u><u>354,745</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2007**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Intergovernmental	\$ 1,266,256	\$ 104,950	\$ 1,371,206
Interest	32,109		32,109
Tuition and Fees	220,271		220,271
Customer Services	2,646,727	86,694	2,733,421
Miscellaneous	7,189		7,189
Total Revenues	<u>4,172,552</u>	<u>191,644</u>	<u>4,364,196</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	61,275	62,823	124,098
Special	967,080		967,080
Support services:			
Pupils	921,437		921,437
Instructional Staff	1,569,463	150,384	1,719,847
Board of Education	35,923		35,923
Administration	280,035	800	280,835
Fiscal	196,272		196,272
Operation and Maintenance of Plant	8,710		8,710
Pupil Transportation	39,926		39,926
Central	9,885	3,000	12,885
Operation of Non-Instructional Services	4,746	225	4,971
Total Expenditures	<u>4,094,752</u>	<u>217,232</u>	<u>4,311,984</u>
Net Change in Fund Balance	77,800	(25,588)	52,212
Fund Balances at Beginning of Year	292,353	57,518	349,871
Fund Balances at End of Year	<u>\$ 370,153</u>	<u>\$ 31,930</u>	<u>\$ 402,083</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to Statement Activities  
For the Fiscal Year Ended June 30, 2007**

Net Change in Fund Balances - Total Governmental Funds	\$	52,212
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p> <p>Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.</p>		
Capital Outlay - Depreciable Capital Assets	\$ 8,726	
Depreciation	<u>(11,451)</u>	(2,725)
<p>The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the book value of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities</p>		
Loss on Disposal of Capital Assets		(1,679)
<p>Receivables from a fiduciary fund are considered interfund balances in the financial statements, but are not reported as internal balances in the government-wide statement of net assets.</p>		
Interfund Receivable		24,050
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:</p>		
Accounts		(32,395)
<p>Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:</p>		
Compensated Absences Payable		<u>(57,468)</u>
Change in Net Assets of Governmental Activities	\$	<u><u>(18,005)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY

Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2007

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ <u>110,421</u>
Liabilities:	
Undistributed Assets	110,240
Due to Students	<u>181</u>
Total Liabilities	\$ <u>110,421</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2007**

	<u>Investment Trust</u>
<b>Additions</b>	
Operating Revenues	\$ 65,597
<b>Deductions</b>	
Operating Expenses	<u>41,547</u>
Change in Net Assets	24,050
Net Assets at Beginning of Year (Restated)	\$ <u>(24,050)</u>
Net Assets at End of Year	<u><u>                    </u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 1 - REPORTING ENTITY**

The Hancock County Educational Service Center (the Educational Service Center) is located in Findlay, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Arcadia, Arlington, Cory Rawson, Liberty Benton, McComb, Van Buren, and Vanlue Local School Districts and the Findlay City School District. The Educational Service Center furnishes these services 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 two administrators, 51 classified employees, and 44 certified teaching personnel that provide services to students from the local and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure 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 Hancock County Educational Service Center, this includes general operations and student-related activities.

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. There are no component units of the Educational Service Center.

The Educational Service Center participates in two jointly governed organizations and three insurance pools. These organizations are the Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Schools of Ohio Risk Sharing Authority, Sheakley Workers' Compensation Group Rating Plan, and the Hancock County Schools Health Benefit Fund. Information about these organizations is presented in Notes 13 and 14 to the basic financial statements.

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

The financial statements of Hancock County Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the Educational Service Center's accounting policies.

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

**A. Basis of Presentation**

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements

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

**B. Fund Accounting**

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

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

Governmental Funds

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

General Fund - The General Fund 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 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 assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs.

The Educational Service Center's only trust fund is an investment trust fund, which accounts for the activity of the external investment pool participant, the West Central Regional School Improvement Team. This investment trust fund was closed out in early fiscal year 2007 since effective July 1, 2006, the Allen County Educational Service Center became the fiscal agent of this program. 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 various student managed activities and resources held for other organizations.

**C. Measurement Focus**

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

Fund Financial Statements

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

The investment trust fund is accounted for using a flow of economic resources measurement focus.

**D. Basis of Accounting**

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

Revenues - Exchange and Nonexchange Transactions

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

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

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

Expenses/Expenditures

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

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 the governmental funds.

**E. Cash and Investments**

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

During fiscal year 2007, investments were limited to 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, 2007.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2007 was \$32,109.

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. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2007, 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/expense is reported in the year in which services are consumed.

**G. Capital Assets**

All of the Educational Service Center's capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Educational Service Center's capitalization threshold is seven hundred fifty dollars. The Educational Service Center does not have any infrastructure. Improvements are capitalized.

All capital assets 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>Useful Lives</u>
Buildings	5-25 years
Furniture, Fixtures, and Equipment	5-10 years
Vehicles	5 years

**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 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 vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after ten years of service.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

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

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

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

**J. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for federal and state grants restricted to expenditure for specified purposes.

The Educational Service Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**K. Fund Balance Reserves**

The Educational Service Center reserves those portions of fund balance 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 which is available for appropriation in future periods. A fund balance reserve has been established for encumbrances.

**L. Interfund Transactions**

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

**M. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither of these items occurred during fiscal year 2007.

**N. Estimates**

The preparation of 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.

**NOTE 3 – FUND RECLASSIFICATION AND RESTATEMENT OF NET ASSETS**

A fund reclassification is required to report certain funds previously reported as an investment trust as agency funds to better reflect their intended purpose. This fund reclassification had the following effect on the Educational Service Center's investments trust fund net assets and agency fund assets and liabilities as previously reported:

	Agency Fund	Investment Trust
Net Assets/Assets/Liabilities at June 30, 2006	\$90,085	(\$16,973)
Fund Reclassification	7,077	(7,077)
Restated balances at July 1, 2006	\$97,162	(\$24,050)

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain commercial paper notes and bankers acceptances for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time, if training requirements have been met.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

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. 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$269,508 of the Educational Service Center's bank balance of \$369,508 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Educational Service Center's name.

The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2007, the Educational Service Center had \$611,781 invested in STAR Ohio.

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Educational Service Center has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from 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. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

Credit Risk - STAR Ohio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that would further limit its investment choices.

Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Educational Service Center has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 5 - STATE FUNDING**

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

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

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

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2007, consisted of accounts receivables. All receivables are considered collectible within one year and in full.

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<b>Balance at 6/30/06</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 6/30/07</b>
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	\$86,294			\$86,294
Furniture, Fixtures, and Equipment	230,112	\$8,726	(\$1,679)	237,159
Vehicles	45,500			45,500
Total Depreciable Capital Assets	<u>361,906</u>	<u>8,726</u>	<u>(1,679)</u>	<u>368,953</u>
Less Accumulated Depreciation				
Buildings and Building Improvements	34,700	995		35,695
Furniture, Fixtures, and Equipment	211,353	10,456		221,809
Vehicles	7,583			7,583
Total Accumulated Depreciation	<u>253,636</u>	<u>11,451</u>		<u>265,087</u>
Depreciable Capital Assets, Net	<u>\$108,270</u>	<u>(\$2,725)</u>	<u>(\$1,679)</u>	<u>\$103,866</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 7 - CAPITAL ASSETS – (Continued)**

The Educational Service Center's buildings consist of a 2 modular classrooms that is used by the local school districts served by the Educational Service Center.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$3,367
Special	2,351
Support Services:	
Pupil	1,814
Instructional Staff	1,630
Administration	662
Fiscal	1,627
Total Depreciation Expense	\$11,451

**NOTE 8 – RISK MANAGEMENT**

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 2007, the Educational Service Center contracted for the following insurance coverage:

<b><u>Coverage provided by the Ohio Schools Risk Sharing Authority:</u></b>	
Commercial Property Contents – replacement cost (\$1,000 deductible)	\$319,650
General Liability	
Per Occurrence	2,000,000
Total Per Year	4,000,000
Errors and Omissions (\$5,000 deductible)	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year. For fiscal year 2007, the Educational Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits or coverage and deductibles selected by the participant.

For fiscal year 2007, the Educational Service Center participated in the Sheakley Workers' Compensation Group Rating Program, an insurance purchasing pool. The program is intended to achieve the benefit of a reduced premium for the school districts and educational service centers by virtue of its grouping and representation with other participants in the program.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 8 – RISK MANAGEMENT – (Continued)**

The Educational Service Center participates in the Hancock County Schools Health Benefit Fund (the Fund), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Mental Retardation/Developmental Disabilities. The Educational Service Center pays monthly premiums to the Fund for employee medical, dental, vision, and life insurance benefits. The Fund is responsible for the management and operation of the program. Upon withdrawal from the Fund, a participant is responsible for the payment of all Fund liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**NOTE 9 - DEFINED BENEFIT PENSION PLANS**

**A. School Employee Retirement System**

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$119,074, \$109,165 and \$104,209 respectively; 97 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

**B. State Teachers Retirement System**

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - DEFINED BENEFIT PENSION PLANS – (Continued)**

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were \$316,896, \$314,120, and \$299,398 respectively; 84 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$7,927 made by the plan members.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 9 - DEFINED BENEFIT PENSION PLANS – (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated 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 funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$24,377 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$4.1 billion at June 30, 2007. For the fiscal year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000, and STRS had 122,934 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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - POSTEMPLOYMENT BENEFITS – (Continued)**

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$48,950.

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 annual health care expenses. Expenses for health care at June 30, 2007, were \$265,558,000. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will not be sufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 59,492 participants currently receiving health care benefits.

**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from Governing Board Policies and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified and certified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Certified, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for eligible personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of thirty days. After the thirty-day maximum is achieved, employees are paid one additional day for each year of service with the Educational Service Center, up to a total maximum of forty-eight days. An employees' severance pay is pro-rated if they have not served five years with the Educational Service Center.

**B. Health Care Benefits**

The Educational Service Center provides medical, dental, vision, and life insurance to all employees through the Hancock County Schools Health Benefit Fund. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board.

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 12 - LONG-TERM OBLIGATIONS**

Changes in the Educational Service Center's long-term obligations during fiscal year 2007 were as follows:

	<u>Balance at 6/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/07</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
Compensated Absences	\$93,736	\$57,468		\$151,204	\$106,100

Compensated absences will be paid from the General Fund.

**NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Millstream Career and Technology Center**

The Millstream Career and Technology Center (the Center) is a distinct political subdivision of the State of Ohio established under Section 3313.90. The Center provides vocational instruction to students. The Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative from the Findlay City School District. Financial information can be obtained from the Findlay City School District Treasurer, 227 South West Street, Findlay, Ohio 45840-3377.

**B. Hancock County Local Professional Development Committee**

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from Hancock County Educational Service Center, who serves as fiscal agent, 7746 County Road 140, Findlay, Ohio 45840.

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 14 - INSURANCE POOLS**

**A. Schools of Ohio Risk Sharing Authority**

The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The SORSA's business and affairs are conducted by a board consisting of nine superintendents and Treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

**B. Sheakley Workers' Compensation Group Rating Program**

The Educational Service Center participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (the "Plan"), an insurance purchasing pool through Sheakley Workers' Compensation Group Rating Program. The intent of the Plan 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 Plan. 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 Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan 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 Plan.

**C. Hancock County Schools Health Benefit Fund**

The Hancock County Schools Health Benefit Fund (the Fund) is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Mental Retardation/Developmental Disabilities. The Fund is a Voluntary Employee Benefit Association under Section 501(c) (9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to participants. The Administrative Committee of the Fund consists of the superintendent from each participating member. The Administrative Committee advises the Trustee, Sky Bank, concerning aspects of the administration of the Fund.

Each member decides which plans offered by the Administrative Committee that will be extended to its employees. Participation in the Fund is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Sky Insurance, PO Box 10079, 1695 Indian Wood Circle, Maumee, Ohio 43537.

**EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are 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, 2007.

**B. Litigation**

There are currently no matters in litigation with the Educational Service Center as defendant.



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Educational Service Center  
Hancock County  
7746 County Road 140  
Findlay, Ohio 45840-1978

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hancock County Educational Service Center, (the Educational Service Center) as of and for the year ended June 30, 2007, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated March 31, 2009. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Educational Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Educational Service Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Educational Service Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Educational Service Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2007-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Educational Service Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted a certain internal control matter that we reported to the Educational Service Center's management in a separate letter dated March 31, 2009.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

We intend this report solely for the information and use of the finance and audit committee, management, and the Governing Board. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

March 31, 2009



EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2007

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

FINDING NUMBER 2007-001

**Significant Deficiency – Monitoring of Financial Activity**

Accurate financial reporting is the responsibility of the Treasurer and the Board of Education and is essential to ensure the information provided to the readers of the financial statements is correct.

The fiscal year 2007 financial statement contained the following errors:

- Due to the nature of the funds activity, Net Assets in the amount of \$6,478 were adjusted to Agency Funds from the Investment Trust Funds.
- Program Revenue ranging in the amounts of \$1,898 to \$1,605,971 were adjusted to match revenue generated by the activity.
- Capital assets were decreased by \$1,679 to agree with the Educational Service Center's records.

As a result, the Educational Service Center's financial statements did not accurately reflect the financial activity of the Educational Service Center for the fiscal year. The Educational Service Center's financial statements and accounting records have been adjusted to correct these errors.

Inaccurate posting of transactions impedes the ability of management officials to accurately assess the financial status of the Educational Service Center.

To ensure the Educational Service Center's financial statements and notes to the statements are complete and accurate, we recommend the Treasurer post funds in accordance with the guidance established by the Uniform School Accounting System issued by the Auditor of State and supply the individual performing the report conversion with a breakdown of funds by classification. Furthermore, the Board should adopt policies and procedures, including a final review of the statements and notes by the Treasurer and Board, to identify and correct errors and omissions.

**Official's Response:**

The financial compilation errors were communicated to the compiler for adjustments to the financial statements. In the future the entries for the compilation report will be discussed in more detail before final compilation is complete.





Mary Taylor, CPA  
Auditor of State

EDUCATIONAL SERVICE CENTER

HANCOCK 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  
APRIL 16, 2009