



**Auditor of State
Betty Montgomery**

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

Table of Contents

| Title | Page |
|--|-------------|
| Independent Accountants' Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 9 |
| Statement of Activities..... | 10 |
| Fund Financial Statements: | |
| Balance Sheet..... | 11 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities | 12 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 13 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 14 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual Comparison - General Fund..... | 15 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual Comparison - Special Education IDEA Special Revenue Fund..... | 16 |
| Statement of Fiduciary Net Assets - Fiduciary Funds | 17 |
| Statement of Changes in Fiduciary Net Assets - Fiduciary Fund | 18 |
| Notes to the Basic Financial Statements | 19 |
| Schedule of Federal Awards Receipts and Expenditures | 37 |
| Notes to the Schedule of Federal Awards Receipts and Expenditures..... | 38 |
| Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> | 39 |
| Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133..... | 41 |
| Schedule of Findings..... | 43 |
| Schedule of Prior Audit Findings | 45 |

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each 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 2004, which collectively comprise the Education 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hancock County Educational Service Center, as of June 30, 2004, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General and Special Education IDEA funds 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 14, 2005, 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 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying federal awards receipts and expenditures schedule 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 basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 14, 2005

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited**

The discussion and analysis of the financial performance of the Hancock County Educational Service Center (the Educational Service Center) provides an overall review of our Educational Service Center's financial activities for the fiscal year ended June 30, 2004. 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 2004 are as follows:

- In total, net assets increased \$81,226, which represents a 58 percent increase from fiscal year 2003.
- Program specific revenues, in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$3,319,156, or 87 percent of total revenues.
- The Educational Service Center had \$3,752,259 in total expenses, 88 percent of which of which were offset by program specific charges for services, operating grants and contributions, and capital 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 Hancock County 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 Hancock County 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 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is 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, 2004
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 funds, the General Fund and the Special Education IDEA Special Revenue 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 is a comparison of governmental activities for fiscal years 2004 and 2003:

| Table 1 | | |
|--|------------|------------|
| Net Assets | | |
| | 2004 | 2003 |
| Assets: | | |
| Current and Other Assets | \$ 571,566 | \$ 584,855 |
| Capital Assets, Net | 79,025 | 55,391 |
| <i>Total Assets</i> | 650,591 | 640,246 |
| Liabilities: | | |
| Current and Other Liabilities | 306,846 | 370,575 |
| Long-Term Liabilities | 122,492 | 129,644 |
| <i>Total Liabilities</i> | 429,338 | 500,219 |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt | 79,025 | 55,391 |
| Restricted | 83,679 | 71,628 |
| Unrestricted | 58,549 | 13,008 |
| <i>Total Net Assets</i> | \$ 221,253 | \$ 140,027 |

Total assets increased \$10,345, or 2 percent. Total liabilities decreased \$70,881 or 14 percent. Total net assets increased \$81,226 or 58 percent.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2004 and 2003.

Table 2
Change in Net Assets

| | 2004 | 2003 |
|--|------------------|------------------|
| Revenues | | |
| Program Revenues: | | |
| Charges for Services and Sales | \$ 1,607,231 | \$ 1,789,705 |
| Operating Grants, Contributions and Interest | 1,666,425 | 1,594,796 |
| Capital Grants and Contributions | 45,500 | |
| General Revenues: | | |
| Grants and Entitlements | 498,059 | 482,627 |
| Interest | 5,578 | 9,208 |
| Gifts and Donations | | 14,185 |
| Miscellaneous | 10,692 | 8,730 |
| <i>Total Revenues</i> | <u>3,833,485</u> | <u>3,899,251</u> |
| Program Expenses | | |
| Instruction: | | |
| Regular | 117,693 | 167,598 |
| Special | 789,916 | 586,585 |
| Support Services: | | |
| Pupils | 857,469 | 763,831 |
| Instructional Staff | 1,567,347 | 1,302,429 |
| Board of Education | 17,166 | 41,410 |
| Administration | 219,236 | 216,969 |
| Fiscal | 160,415 | 149,164 |
| Business | 511 | 4,482 |
| Operation and Maintenance of Plant | 2,991 | 8,053 |
| Pupil Transportation | 11,731 | 2,000 |
| Central | 5,885 | 9,883 |
| Non-Instructional | 1,899 | 1,379 |
| Intergovernmental | | 609,454 |
| <i>Total Expenses</i> | <u>3,752,259</u> | <u>3,863,237</u> |
| <i>Increase (Decrease) in Net Assets</i> | <u>\$ 81,226</u> | <u>\$ 36,014</u> |

Total revenues decreased \$65,766, or 2 percent. Program revenues have consistently accounted for in excess of 85 percent of total revenues for the last three fiscal years. Total expenses decreased approximately 3 percent.

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, operating grants and contributions, and capital grants and contributions offsetting those services.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Table 3
Cost of Services

| | Total Cost of Services 2004 | Net Cost of Services 2004 | Total Cost of Services 2003 | Net Cost of Services 2003 |
|------------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Instruction: | | | | |
| Regular | \$ 117,693 | \$ (148,688) | \$ 167,598 | \$ (189,104) |
| Special | 789,916 | (2,237,195) | 586,585 | (1,712,463) |
| Support Services: | | | | |
| Pupils | 857,469 | 857,469 | 763,831 | 650,281 |
| Instructional Staff | 1,567,347 | 1,567,347 | 1,302,429 | 1,302,429 |
| Board of Education | 17,166 | 17,166 | 41,410 | 41,410 |
| Administration | 219,236 | 217,848 | 216,969 | 216,969 |
| Fiscal | 160,415 | 151,915 | 149,164 | 149,164 |
| Business | 511 | 511 | 4,482 | 4,482 |
| Operation and Maintenance of Plant | 2,991 | 2,991 | 8,053 | 2,011 |
| Pupil Transportation | 11,731 | 1,951 | 2,000 | (8,566) |
| Central | 5,885 | (61) | 9,883 | 7,185 |
| Non-Instructional Services | 1,899 | 1,849 | 1,379 | 970 |
| Intergovernmental | | | 609,454 | 13,968 |
| <i>Total Expenses</i> | <u>\$ 3,752,259</u> | <u>\$ 433,103</u> | <u>\$ 3,863,237</u> | <u>\$ 478,736</u> |

A review of Table 3 reflects the net cost of instructional services was (\$2,385,883). 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 \$2,817,137. These activities support the Educational Service Center's ability to provide instruction. The net cost of activities of \$433,103, 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 \$3,860,460 and expenditures were \$3,738,556, which indicates the Educational Service Center had no difficulty in meeting current costs. For the Educational Service Center's major funds the General Fund balance increased \$83,004 and Special Education IDEA Fund balance decreased \$8,089. Neither of these changes is considered significant.

Budgeting Highlights

The Educational Service Center's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursements, and encumbrances. The Educational Service Center's most significant budgeted fund is the General Fund. The General Fund is budgeted at the function level. All other funds are budgeted at the fund level.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

As services provided to the local school districts change during the fiscal year, adjustments are made from the original budget. One example of a need to increase the budget would be an increase in classroom students. Teacher Aides, which had not been budgeted for originally, would be added due to classroom enrollment factors. This type of request generally comes directly from the Superintendent of the school district where the classroom unit is housed. Additions to personnel are the primary cause for budget revisions and are approved by Educational Service Center's Board.

For the General Fund, original budgeted revenues, in the amount of \$3,022,665 were below the final budgeted revenues, in the amount of \$3,044,550. The change was less than 1 percent.

Expenditures were budgeted at \$3,194,615 while actual expenditures were \$3,028,529. Again this change was generally insignificant.

Capital Assets

At the end of fiscal year 2004, the Educational Service Center had \$79,025 invested in capital assets (net of accumulated depreciation). For further information regarding the Educational Service Center's capital assets see, Note 8 to the basic financial statements.

Debt

The Educational Service Center had no debt in fiscal year 2004. The only long-term obligations of the Educational Service Center are related to compensated absences. For further information regarding the Educational Service Center's long-term obligations, see Note 13 to the basic financial statements.

Current Issues

In prior years, Hancock County provided office space to the Educational Service Center at no cost; however, House Bill 94 now allows counties to charge a fee for rent. As such, Hancock County requested the Educational Service Center pay annual rent of \$94,000.

The Educational Service Center filed a lawsuit against the Hancock County Commissioners challenging the \$94,000 cost of rent for office space. The Court of Common Pleas of Hancock County issued a judgment on July 19, 2002, stating the cost of rent should be \$22,216 a year. This cost was to be phased in over a five year period. In 2002, the Commissioners appealed the decision. In January 2003, the Court of Appeals ruled in favor of the Educational Service Center. In March 2003, the County Commissioners and the Educational Service Center entered into an agreement on this issue. The Educational Service Center paid 20 percent of the estimated rental costs for fiscal year 2003, in the amount of \$4,443. Building rent charges for 2004 was \$12,049. For fiscal year 2005, the Educational Service Center will pay 60 percent of the costs for gas, electric, water, and janitorial services. For fiscal year 2006, the Educational Service Center will pay 80 percent of these costs. For fiscal year 2007 and thereafter, the Educational Service Center will be responsible for 100 percent of such costs.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors 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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Sandy Knudson, Treasurer, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio, 45840.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Statement of Net Assets
June 30, 2004**

| | Governmental Activities |
|--|----------------------------|
| Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$ 415,106 |
| Accounts Receivable | 119,533 |
| Intergovernmental Receivable | 11,792 |
| Prepaid Items | 25,135 |
| Depreciable Capital Assets, Net | 79,025 |
| <i>Total Assets</i> | 650,591 |
| Liabilities: | |
| Accounts Payable | 454 |
| Accrued Wages and Benefits Payable | 215,891 |
| Intergovernmental Payable | 70,536 |
| Matured Compensated Absences Payable | 19,965 |
| Long Term Liabilities: | |
| Due Within One Year | 66,232 |
| Due in More Than One Year | 56,260 |
| <i>Total Liabilities</i> | 429,338 |
| Net Assets: | |
| Invested in Capital Assets | 79,025 |
| Restricted For Other Purposes | 83,679 |
| Unrestricted | 58,549 |
| <i>Total Net Assets</i> | \$ 221,253 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets |
|---------------------------------------|------------------|--------------------------------------|--|--|--|
| | Expenses | Charges for Services and Sales | Operating Grants, Contributions, and Interest | Capital Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 117,693 | \$ 178,137 | \$ 42,744 | \$ 45,500 | \$ 148,688 |
| Special | 789,916 | 1,413,818 | 1,613,293 | | 2,237,195 |
| Support services: | | | | | |
| Pupils | 857,469 | | | | (857,469) |
| Instructional Staff | 1,567,347 | | | | (1,567,347) |
| Board of Education | 17,166 | | | | (17,166) |
| Administration | 219,236 | | 1,388 | | (217,848) |
| Fiscal | 160,415 | | 8,500 | | (151,915) |
| Business | 511 | | | | (511) |
| Operation and Maintenance of Plant | 2,991 | | | | (2,991) |
| Pupil Transportation | 11,731 | 9,280 | 500 | | (1,951) |
| Central | 5,885 | 5,946 | | | 61 |
| Non-Instructional Services | 1,899 | 50 | | | (1,849) |
| <i>Total Governmental Activities</i> | \$ 3,752,259 | \$ 1,607,231 | \$ 1,666,425 | \$ 45,500 | (433,103) |

General Revenues:

| | |
|---|------------|
| Grants and Entitlements not Restricted to Specific Programs | 498,059 |
| Interest | 5,578 |
| Miscellaneous | 10,692 |
| <i>Total General Revenues</i> | 514,329 |
| <i>Change in Net Assets</i> | 81,226 |
| Net Assets Beginning of Year | 140,027 |
| <i>Net Assets End of Year</i> | \$ 221,253 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

| | General Fund | Special Education IDEA | Other Governmental Funds | Totals Governmental Funds |
|--|-------------------|------------------------------|--------------------------------|---------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 327,988 | \$ 4,806 | \$ 82,312 | \$ 415,106 |
| Accounts Receivable | 119,533 | | | 119,533 |
| Intergovernmental Receivable | 11,034 | 651 | 107 | 11,792 |
| Prepaid Items | 24,933 | | 202 | 25,135 |
| <i>Total Assets</i> | <u>\$ 483,488</u> | <u>\$ 5,457</u> | <u>\$ 82,621</u> | <u>\$ 571,566</u> |
| Liabilities: | | | | |
| Accounts Payable | \$ 454 | | | \$ 454 |
| Accrued Wages and Benefits Payable | 211,492 | \$ 509 | \$ 3,890 | 215,891 |
| Intergovernmental Payable | 58,440 | | | 58,440 |
| Matured Compensated Absences Payable | 19,965 | | | 19,965 |
| Deferred Revenue | | 651 | | 651 |
| <i>Total Liabilities</i> | <u>290,351</u> | <u>1,160</u> | <u>3,890</u> | <u>295,401</u> |
| Fund Balances: | | | | |
| Reserved for Encumbrances | 64,154 | 1,632 | 9,864 | 75,650 |
| Unreserved Reported In | | | | |
| General Fund | 128,983 | | | 128,983 |
| Special Revenue Funds | | 2,665 | 68,867 | 71,532 |
| <i>Total Fund Balances</i> | <u>193,137</u> | <u>4,297</u> | <u>78,731</u> | <u>276,165</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$ 483,488</u> | <u>\$ 5,457</u> | <u>\$ 82,621</u> | <u>\$ 571,566</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, 2004**

| | |
|---|------------|
| Total Governmental Fund Balances | \$ 276,165 |
|---|------------|

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. | 79,025 |
|---|--------|

| | |
|--|-----|
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds: Intergovernmental Receivable | 651 |
| | 651 |

| | |
|--|----------|
| Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds. | (12,096) |
|--|----------|

| | |
|--|-----------|
| Long-term liabilities are not due and payable in the current period and, therefore, not reported in the funds: Compensated Absences Payable | (122,492) |
| | (122,492) |

| | |
|--|------------|
| <i>Net Assets of Governmental Activities</i> | \$ 221,253 |
|--|------------|

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, 2004**

| | General Fund | Special Education IDEA | Other Governmental Funds | Total Governmental Funds |
|-------------------------------------|-------------------|------------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Intergovernmental | \$ 1,350,658 | \$ 684,376 | \$ 201,927 | \$ 2,236,961 |
| Interest | 5,578 | | | 5,578 |
| Tuition and Fees | 92,243 | | | 92,243 |
| Customer Services | 1,448,415 | | 9,771 | 1,458,186 |
| Miscellaneous | 67,492 | | | 67,492 |
| <i>Total Revenues</i> | <u>2,964,386</u> | <u>684,376</u> | <u>211,698</u> | <u>3,860,460</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 57,805 | | 57,219 | 115,024 |
| Special | 538,126 | 247,517 | 8,775 | 794,418 |
| Support services: | | | | |
| Pupils | 678,902 | 170,235 | 1,186 | 850,323 |
| Instructional Staff | 1,206,971 | 274,713 | 93,326 | 1,575,010 |
| Board of Education | 17,166 | | | 17,166 |
| Administration | 201,981 | | 1,200 | 203,181 |
| Fiscal | 159,126 | | 1,291 | 160,417 |
| Business | 511 | | | 511 |
| Operation and Maintenance of Plant | 2,991 | | | 2,991 |
| Pupil Transportation | 11,231 | | 500 | 11,731 |
| Central | 5,885 | | | 5,885 |
| Intergovernmental | 687 | | 1,212 | 1,899 |
| <i>Total Expenditures</i> | <u>2,881,382</u> | <u>692,465</u> | <u>164,709</u> | <u>3,738,556</u> |
| <i>Net Change in Fund Balance</i> | 83,004 | (8,089) | 46,989 | 121,904 |
| Fund Balances at Beginning of Year | 110,133 | 12,386 | 31,742 | 154,261 |
| <i>Fund Balances at End of Year</i> | <u>\$ 193,137</u> | <u>\$ 4,297</u> | <u>\$ 78,731</u> | <u>\$ 276,165</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, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ 121,904

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

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.

| | | |
|---|-----------------|----------|
| Additions to Depreciable Capital Assets | 49,920 | |
| Donated Depreciable Capital Assets | (45,500) | |
| Depreciation | <u>(26,286)</u> | (21,866) |

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

| | | |
|-------------------|-----------------|----------|
| Intergovernmental | <u>(26,975)</u> | (26,975) |
|-------------------|-----------------|----------|

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

| | | |
|------------------------------|--------------|--------------|
| Intergovernmental Payable | 1,011 | |
| Compensated Absences Payable | <u>7,152</u> | <u>8,163</u> |

Change in Net Assets of Governmental Activities \$ 81,226

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2004**

| | Budgeted Amounts | | | Variance with Final Budget Over (Under) |
|---|-------------------|-------------------|-------------------|--|
| | Original | Final | Actual | |
| Revenues: | | | | |
| Intergovernmental | \$ 1,359,350 | \$ 1,346,377 | \$ 1,346,377 | |
| Interest | 7,000 | 7,000 | 5,614 | \$ (1,386) |
| Tuition and Fees | 20,125 | 27,254 | 27,129 | (125) |
| Customer Services | 1,632,510 | 1,658,504 | 1,635,828 | (22,676) |
| Gifts and Donations | 450 | 450 | | (450) |
| Miscellaneous | 3,230 | 4,965 | 5,039 | 74 |
| <i>Total Revenues</i> | <u>3,022,665</u> | <u>3,044,550</u> | <u>3,019,987</u> | <u>(24,563)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 91,119 | 87,549 | 68,680 | 18,869 |
| Special | 675,665 | 599,608 | 573,369 | 26,239 |
| Support services: | | | | |
| Pupils | 607,217 | 690,439 | 676,050 | 14,389 |
| Instructional Staff | 1,357,030 | 1,367,150 | 1,289,267 | 77,883 |
| Board of Education | 24,540 | 27,933 | 18,069 | 9,864 |
| Administration | 229,875 | 219,466 | 209,443 | 10,023 |
| Fiscal | 160,492 | 165,966 | 162,798 | 3,168 |
| Business | 4,214 | 4,214 | 745 | 3,469 |
| Operation and Maintenance of Plant | 8,020 | 9,345 | 8,922 | 423 |
| Pupil Transportation | 2,000 | 12,000 | 11,231 | 769 |
| Central | 8,105 | 10,945 | 9,955 | 990 |
| <i>Total Expenditures</i> | <u>3,168,277</u> | <u>3,194,615</u> | <u>3,028,529</u> | <u>166,086</u> |
| <i>Excess of Expenditures Over Revenues</i> | <u>(145,612)</u> | <u>(150,065)</u> | <u>(8,542)</u> | <u>141,523</u> |
| Other Financing Sources (Uses): | | | | |
| Refund of Prior Year Expenditures | 2,000 | 2,000 | 339 | (1,661) |
| Refund of Prior Year Receipts | (200) | (200) | | 200 |
| Advances Out | | (7,035) | | 7,035 |
| <i>Total Other Financing Sources (Uses)</i> | <u>1,800</u> | <u>(5,235)</u> | <u>339</u> | <u>5,574</u> |
| <i>Net Change in Fund Balance</i> | <u>(143,812)</u> | <u>(155,300)</u> | <u>(8,203)</u> | <u>147,097</u> |
| Fund Balance at Beginning of Year | 208,852 | 208,852 | 208,852 | |
| Prior Year Encumbrances Appropriated | 62,731 | 62,731 | 62,731 | |
| <i>Fund Balance at end of Year</i> | <u>\$ 127,771</u> | <u>\$ 116,283</u> | <u>\$ 263,380</u> | <u>\$ 147,097</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
Special Education IDEA Special Revenue Fund
For the Fiscal Year Ended June 30, 2004**

| | Budgeted Amounts | | | Variance with Final Budget Over (Under) |
|--------------------------------------|------------------|------------|------------|--|
| | Original | Final | Actual | |
| Revenues: | | | | |
| Intergovernmental | \$ 647,527 | \$ 685,027 | \$ 684,376 | \$ (651) |
| <i>Total Revenues</i> | 647,527 | 685,027 | 684,376 | (651) |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Special | 129,827 | 253,330 | 249,822 | 3,508 |
| Support services: | | | | |
| Pupils | 261,260 | 170,222 | 170,222 | |
| Instructional Staff | 271,222 | 276,257 | 275,939 | 318 |
| <i>Total Expenditures</i> | 662,309 | 699,809 | 695,983 | 3,826 |
| <i>Net Change in Fund Balance</i> | (14,782) | (14,782) | (11,607) | 3,175 |
| Fund Balance at Beginning of Year | 5,954 | 5,954 | 5,954 | |
| Prior Year Encumbrances Appropriated | 8,826 | 8,826 | 8,826 | |
| <i>Fund Balance at end of Year</i> | \$ (2) | \$ (2) | \$ 3,173 | \$ 3,175 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

| | Investment Trust | Agency |
|--|---------------------|-----------|
| Assets: | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 304,472 | \$ 71,089 |
| Liabilities: | | |
| Undistributed Assets | | \$ 70,095 |
| Due to Students | | 994 |
| <i>Total Liabilities</i> | | \$ 71,089 |
| Net Assets: | | |
| Held in Trust for External Pool Participants | 304,472 | |
| <i>Total Net Assets</i> | \$ 304,472 | |

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, 2004

| | Investment Trust |
|----------------------------------|---------------------|
| Additions | |
| Interest | \$ 2,584 |
| Deductions | |
| Distributions to Participants | 2,584 |
| Capital Transactions | 114,267 |
| <i>Total Deductions</i> | 116,851 |
| <i>Change in Net Assets</i> | (114,267) |
| Net Assets at Beginning of Year | 418,739 |
| <i>Net Assets at End of Year</i> | \$ 304,472 |

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, 2004**

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, 44 classified employees, and 43 certified teaching personnel that provide services to 5,420 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 the 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 three jointly governed organizations and three insurance pools. These organizations are the Millstream Cooperative Vocational Career Center, Hancock County Local Professional Development Committee, West Central Regional Professional Development Center, Ohio Schools 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 14 and 15 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, 2004
(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, 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.

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 two major governmental funds:

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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.

Special Education IDEA Special Revenue Fund - The Special Education IDEA Special Revenue Fund is used to account for federal funds provided to assist schools in the identification of handicapped children and the provision of full education opportunities to them.

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 Regional Planning Development Center of Northwest Ohio. 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.

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, include 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.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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.

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 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 governmental funds.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

E. Budgetary Process

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

The Educational Service Center's Board adopts an annual appropriation resolution which is the Board's authorization to spent resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the function level within the General Fund and the fund level in all other funds. The Treasurer has been authorized to allocate appropriations to the object level in the General Fund and the function and object level within all other funds.

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

F. Cash and Investments

To improve the 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 Educational Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

During fiscal year 2004, 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, 2004.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2004 was \$5,578.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

H. 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 years |
| Furniture, Fixtures, and Equipment | 5 years |
| Vehicles | 5 years |

I. 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.

J. 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.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

K. 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.

L. 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.

M. 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 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.

N. 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.

O. 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 - 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 as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual Comparison presented for the General Fund and Title VI-B Special Revenue 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 the GAAP basis are as follows:

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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 (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements are as follows:

| Net Change in Fund Balance | | |
|---|------------|------------------------------|
| | General | Special Education IDEA |
| GAAP Basis | \$ 83,004 | \$ (8,089) |
| Increase (Decrease) Due To: | | |
| Revenue Accruals: | | |
| Accrued FY 2003, Received In Cash FY 2004 | 161,563 | |
| Accrued FY 2004, Not Yet Received in Cash | (130,567) | |
| Expenditure Accruals: | | |
| Accrued FY 2003, Paid in Cash FY 2004 | (346,689) | (2,394) |
| Accrued FY 2004, Not Yet Paid in Cash | 290,351 | 509 |
| Prepays | (1,257) | |
| Encumbrances Outstanding at Fiscal Year End (Budget Basis) | (64,608) | (1,633) |
| Budget Basis | \$ (8,203) | \$ (11,607) |

NOTE 4 - 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.

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

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(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 may 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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; and
6. The State Treasurer's investment pool (STAR Ohio).

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 maybe 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 the receipt of confirmation of transfer from the custodian.

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."

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$284,189 and the bank balance was \$610,631. Of the bank balance, \$100,000 was covered by federal depository insurance and \$510,631 was uninsured and uncollateralized. Of this amount \$190,631 was not collateralized as required by Ohio Revised Code § 135.18. Non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

The Educational Service Center's investments are categorized 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 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 for which the securities 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 is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2004, the fair value of funds on deposit with STAR Ohio was \$506,478.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classification of cash and cash equivalents and investments on the basic financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents | Investments |
|----------------------|------------------------------|-------------|
| GASB Statement No. 9 | \$ 790,667 | \$ - |
| STAR Ohio | (506,478) | 506,478 |
| GASB Statement No. 3 | \$ 284,189 | \$ 506,478 |

NOTE 5 - INVESTMENT POOL

The Educational Service Center serves as fiscal agent for the West Central Regional Professional Development Center of Northwest Ohio, a legally separate entity. The Educational Service Center pools the monies of this entity with the Educational Service Center's for investment purposes. The Educational Service Center cannot allocate its investments between internal and external investment pools. The investment pool is not registered with the Securities and Exchange Commission as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The carrying amount and fair value for both the internal and external portion of the investment pool are disclosed in Note 5 - Deposits and Investments. Condensed financial information for the investment pool follows:

| Statement of Net Assets | |
|---|-------------------|
| June 30, 2004 | |
| Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$ 790,667 |
| Net Assets Held in Trust for Pool Participants: | |
| Internal Portion | \$ 486,195 |
| External Portion | 304,472 |
| <i>Total Net Assets Held in Trust for Pool Participants</i> | <i>\$ 790,667</i> |

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Statement of Changes In Net Assets
For Fiscal Year Ended June 30, 2004

| | |
|-------------------------------|--------------------------|
| Additions: | |
| Interest | \$ 8,510 |
| Deductions: | |
| Distributions to Participants | (8,510) |
| Capital Transactions | <u>(122,262)</u> |
| Total Deductions | (130,772) |
| <i>Change in Net Assets</i> | (122,262) |
| Net Assets Beginning of Year | <u>912,929</u> |
| <i>Net Assets End of Year</i> | <u><u>\$ 790,667</u></u> |

NOTE 6 - 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 7 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts, intergovernmental receivables, and amounts due from external parties. All receivables are considered collectible within one year and in full. A summary of the principal items of intergovernmental receivables follows:

| | <u>Amount</u> |
|-------------------------------------|-------------------------|
| Governmental Activities: | |
| General Fund | \$ 11,034 |
| Special Education IDEA | 651 |
| Other Governmental Funds | <u>107</u> |
| Total Intergovernmental Receivables | <u><u>\$ 11,792</u></u> |

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

| | Balance at 06/30/03 | Additions | Reductions | Balance at 06/30/04 |
|---|------------------------|------------------|------------|------------------------|
| Governmental Activities | | | | |
| Depreciable Capital Assets | | | | |
| Buildings and Building Improvements | \$ 36,837 | | | \$ 36,837 |
| Furniture, Fixtures, and Equipment | 203,574 | \$ 4,420 | | 207,994 |
| Vehicles | | 45,500 | | 45,500 |
| <i>Total Depreciable Capital Assets</i> | <u>240,411</u> | <u>49,920</u> | | <u>290,331</u> |
| Less Accumulated Depreciation | | | | |
| Buildings and Building Improvements | (33,767) | | | (33,767) |
| Furniture, Fixtures, and Equipment | (151,253) | (24,769) | | (176,022) |
| Vehicles | | (1,517) | | (1,517) |
| <i>Total Accumulated Depreciation</i> | <u>(185,020)</u> | <u>(26,286)</u> | | <u>(211,306)</u> |
| <i>Depreciable Capital Assets, Net</i> | <u>\$ 55,391</u> | <u>\$ 23,634</u> | | <u>\$ 79,025</u> |

The Educational Service Center's buildings consist of a modular classroom 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 | \$ | 2,052 |
| Special | | 7,511 |
| Support Services: | | |
| Pupil | | 4,716 |
| Instructional Staff | | 4,277 |
| Administration | | 5,886 |
| Fiscal | | 1,844 |
| Total Depreciation Expense | <u>\$</u> | <u>26,286</u> |

NOTE 9 - 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 2004, the Educational Service Center contracted for the following insurance coverage:

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

| | |
|--|------------|
| <u>Coverage provided by the Ohio Schools Risk Sharing Authority:</u> | |
| Commercial Property Contents – replacement cost (\$1,000 deductible) | \$ 186,846 |
| General Liability | |
| Per Occurrence | 1,000,000 |
| Total Per Year | 3,000,000 |
| Errors and Omissions (\$5,000 deductible) | 1,000,000 |

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 2003, 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 2004, 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.

The Educational Service Center participates in the Hancock County Schools Health Benefit Fund (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 10 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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.

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 employee contributions. The ESC's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$266,490, \$272,288, and \$179,321, respectively; 91 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. School Employees Retirement System

The ESC 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate of 14 percent for 2004, 9.09 percent was the portion 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 adequacy of the contribution rates is determined annually. The ESC's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$78,951, \$70,508, and \$42,742, respectively; 100 percent has been contributed for each of these fiscal years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2004, two of the Governing Board members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

NOTE 11 - POSTEMPLOYMENT BENEFITS

The ESC provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement 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 Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$20,499 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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.

For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay has been established at \$25,400. 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, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$54,742 during the 2004 fiscal year.

NOTE 12 - 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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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. The premium varies with employee depending on the terms of the union contract.

NOTE 13 - LONG-TERM OBLIGATIONS

Changes in the Educational Service Center's long-term obligations during fiscal year 2004 were as follows:

| | Balance at 6/30/03 | Additions | Reductions | Balance at 6/30/04 | Amounts Due Within One Year |
|--------------------------|-----------------------|-----------|------------|-----------------------|-----------------------------------|
| Governmental Activities: | | | | | |
| Compensated Absences | \$ 129,644 | | \$ (7,152) | \$ 122,492 | \$ 66,232 |

Compensated absences will be paid from the General Fund.

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

A. Millstream Cooperative Vocational Career Center

The Millstream Cooperative Vocational Career Center is a distinct political subdivision of the State of Ohio established under Section 3313.90. The Career Center provides vocational instruction to students. The Career 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, Pam Barber, who serves as 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.

C. West Central Regional Professional Development Center

The West Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulate regional structure for professional development in which school districts, the business community, higher education, and

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Sandy Knudson, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840

NOTE 15 - 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 OSRSA 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 is a member of the Sheakley Workers' Compensation Group Rating Program. The group rating plan will allow school districts and educational service centers to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers. Each year, the participating members pay an enrollment fee to cover the costs of administering the program.

C. Hancock County Schools Health Benefit Fund

The Hancock County Schools Health Benefit Fund (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 Aaron Moore, SKY Insurance, PO Box 10079, 1695 Indian Wood Circle, Maumee, OH 43537.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

NOTE 16 - 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 plan 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 Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTES 17 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2004.

B. Litigation

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Schedule of Federal Awards Receipts and Expenditures
For the Year Ended June 30, 2004**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> | Pass Through Entity Number | Federal CFDA Number | Receipts | Disbursements |
|---|----------------------------------|---------------------------|-------------------|-------------------|
| Program Title | | | | |
| U.S. DEPARTMENT OF AGRICULTURE | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| National School Lunch Program | LL-P4-2003 | 10.555 | \$ 130 | \$ 130 |
| Special Milk Program | LL-P4-2004 | 10.555 | 457 | 457 |
| Total National School Lunch Program | | | 587 | 587 |
| U.S. DEPARTMENT OF EDUCATION | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| <u>Special Education Cluster:</u> | | | | |
| Special Education Grants to States | 6B-SD-2004P | 84.027 | 36,849 | 32,042 |
| | 6B-SF-2003P | 84.027 | 16,803 | 31,583 |
| | 6B-SF-2004 | 84.027 | 630,724 | 630,724 |
| <i>Total Special Education Grant to States</i> | | | 684,376 | 694,349 |
| Special Education - Preschool Grant | PG-S1-2003P | 84.173 | 8,982 | 8,982 |
| | PG-S1-2004 | 84.173 | 17,593 | 17,593 |
| <i>Total Special Education - Preschool Grants</i> | | | 26,575 | 26,575 |
| Total Special Education Cluster | | | 710,951 | 720,924 |
| Safe and Drug Free Schools Community Service Grant | T4S1-2004-P | 84.184 | 7,269 | 7,269 |
| | T4S1-2004 | 84.184 | 6,207 | 6,207 |
| Total Safe and Drug Free Schools Community Service Grant | | | 13,476 | 13,476 |
| Learn and Serve America School and Community Based Program | SV-S1-2004 | 94.004 | 3,000 | 3,000 |
| Total U.S. Department of Education | | | 727,427 | 737,400 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| <i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i> | | | | |
| Medical Assistance Program | 3200253 | 93.778 | 43,150 | 43,150 |
| Totals | | | \$ 771,164 | \$ 781,137 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the schedule) summarizes activity of the Educational Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – OTHER FEDERAL ASSISTANCE

The Educational Service Center serves as fiscal agent for the Hancock County Family and Children First Council (the Council) and the Regional Planning Development Center of Northwest Ohio (RPDC), legally separate entities. The Educational Service Center receives and disburses federal funds on behalf of the Council and RPDC. These funds have been appropriately excluded from the accompanying schedule.



**Auditor of State
Betty Montgomery**

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

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

To the Governing Board:

We have audited the financial statements of the governmental activities, each 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, 2004, and have issued our report thereon dated March 14, 2005. 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 Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions 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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the Educational Service Center's management in a separate letter dated March 14, 2005.

Educational Service Center
Hancock County
Independent Accountants' Report 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, Governing Board, 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 14, 2004



Auditor of State Betty Montgomery

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

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

To the Governing Board:

Compliance

We have audited the compliance of the Hancock County Educational Service Center (the Educational Service 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 each of its major federal programs for the year ended June 30, 2004. The Educational Service Center's major federal programs are 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 each of its major federal programs is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational Service 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 Educational Service 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 Educational Service Center's compliance with those requirements.

In our opinion, the Educational Service Center's complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Educational Service 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 Educational Service 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, Governing Board, 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.



Betty Montgomery
Auditor of State

March 14, 2005

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

Schedule of Findings
OMB Circular A -133 § .505
June 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | No |
| (d)(1)(vii) | Major Programs (list): | <u>Special Education Cluster:</u> Special Education Grants to States CFDA#84.027 Special Education – Preschool Grant CFDA# 84.173 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

FINDING NUMBER 2004-001

Noncompliance Citation

Generally, Ohio Revised Code § 135.18, provides in part that the treasurer before making a deposit in a public depository require the institution to pledge eligible securities as collateral to adequately protect the public money deposited in excess of the federal depository insurance. Such collateral is to be deposited with the treasurer or with a qualified third party trustee.

FINDING NUMBER 2004-001
(Continued)

Deposits at June 30, 2004 exceeded the federal depository insurance and collateral pledged by \$190,631. The Educational Service Center should regularly monitor its deposits and the amount of collateral pledge by its banks to ensure all deposits are protected.

| |
|---------------------------------------|
| 3. FINDINGS FOR FEDERAL AWARDS |
|---------------------------------------|

None.

EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY

Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2004

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|---|------------------|--|
| 2003-001 | ORC § 135.18 - deposits exceeded depository insurance and pledged collateral | No | The finding has not been corrected and is repeated in this report as finding 2004-001. |



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

HANCOCK 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 5, 2005**