



Mary Taylor, CPA
Auditor of State

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hancock County Educational Service Center, (the Educational Service Center), as of and for the year ended June 30, 2006, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Hancock County Educational Service Center, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2007, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Educational Service Center's basic financial statements. The budgetary comparison for the General Fund provides additional information 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 6, 2007

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006
Unaudited**

The discussion and analysis of the Hancock County Educational Service Center's (the Educational Service Center) financial performance provides an overall review of our Educational Service Center's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- In total, net assets increased \$18,640, which represents a 5 percent increase from fiscal year 2005.
- Program specific revenues, in the form of charges for services and operating grants, contributions, and interest accounted for \$3,590,666, or 87 percent of total revenues.
- The Educational Service Center had \$4,105,461 in total expenses, 87 percent of which were offset by program specific charges for services and operating grants, contributions, and interest.

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 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to what are used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

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.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006
Unaudited
(Continued)**

Reporting the Educational Service Center's Most Significant Funds

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

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

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

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net assets for fiscal year 2006 compared to fiscal year 2005.

Table 1 Net Assets		
	2006	2005
Assets:		
Current and Other Assets	\$726,631	\$630,905
Capital Assets, Net	108,270	124,710
Total Assets	834,901	755,615
Liabilities:		
Current and Other Liabilities	368,415	288,816
Long-Term Liabilities	93,736	112,689
Total Liabilities	462,151	401,505
Net Assets:		
Invested in Capital Assets, Net of Related Debt	108,270	124,710
Restricted	57,518	42,578
Unrestricted	206,962	186,822
Total Net Assets	\$372,750	\$354,110

Total assets increased \$79,286, or 10 percent. Total liabilities increased \$60,646 or 15 percent. Total net assets increased \$18,640 or 5 percent.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006
Unaudited
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2006 compared to fiscal year 2005.

Table 2
Change in Net Assets

	2006	2005
Revenues:		
Program Revenues:		
Charges for Services and Sales	2,589,102	\$2,415,817
Operating Grants, Contributions and Interest	1,001,564	1,053,286
General Revenues:		
Grants and Entitlements	491,930	495,758
Interest	19,185	12,432
Miscellaneous	22,320	57,851
Total Revenues	<u>4,124,101</u>	<u>4,035,144</u>
Program Expenses:		
Instruction:		
Regular	134,065	137,563
Special	841,104	807,124
Vocational		43
Support Services:		
Pupils	878,748	824,950
Instructional Staff	1,768,577	1,646,259
Board of Education	36,549	38,716
Administration	252,481	227,040
Fiscal	168,561	184,769
Business		953
Operation and Maintenance of Plant	9,010	13,879
Pupil Transportation	2,155	11,095
Central	10,305	9,456
Non-Instructional	3,906	440
Total Expenses	<u>4,105,461</u>	<u>3,902,287</u>
Increase in Net Assets	<u>\$18,640</u>	<u>\$132,857</u>

Total revenues increased \$88,957, 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 increased approximately 5 percent.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006
Unaudited
(Continued)**

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

Table 3
Cost of Services

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2006	2006	2005	2005
Instruction:				
Regular	\$134,065	\$(376,530)	\$137,563	\$(307,771)
Special	841,104	(2,205,469)	807,124	(2,181,202)
Vocational			43	43
Support Services:				
Pupils	878,748	878,748	824,950	824,950
Instructional Staff	1,768,577	1,768,577	1,646,259	1,646,259
Board of Education	36,549	36,549	38,716	38,716
Administration	252,481	252,481	227,040	227,040
Fiscal	168,561	165,561	184,769	184,019
Business			953	953
Operation and Maintenance of Plant	9,010	2,675	13,879	7,417
Pupil Transportation	2,155	(5,251)	11,095	2,310
Central	10,305	(1,624)	9,456	(9,412)
Non-Instructional Services	3,906	(922)	440	(138)
Total Expenses	<u>\$4,105,461</u>	<u>\$514,795</u>	<u>\$3,902,287</u>	<u>\$433,184</u>

A review of Table 3 reflects the net cost of instructional services was (\$2,581,999). At first glance, this would indicate the Educational Service Center received resources well in excess of that needed to support the instruction program. However, further review reflects a deficiency in support services of \$3,097,716. These activities support the Educational Service Center's ability to provide instruction. The net cost of activities of \$514,795, or 13 percent of total expenses, was supported by general revenues.

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Total revenues were \$4,120,777 and expenditures were \$4,083,924, which indicates the Educational Service Center had no difficulty in meeting current costs. The Educational Service Center's major fund, the General Fund, increased \$21,913. This change is considered insignificant.

Budgeting Highlights

The schedule comparing the Educational Service Center's original and final budgets and actual results is included as supplemental information.

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, 2006
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 and other financing sources, in the amount of \$3,966,042 were below the final budgeted revenues and other financing sources, in the amount of \$4,019,286. The change was minor as was the variance between the actual revenues received compared to the final budget.

Expenditures and other financing uses were budgeted at \$4,104,939 while actual expenditures and other financing uses were \$3,823,100. Again this change was generally insignificant.

Capital Assets

At the end of fiscal year 2006, the Educational Service Center had \$108,270 invested in capital assets (net of accumulated depreciation). For further information regarding the Educational Service Center's capital assets, see Note 7 to the basic financial statements.

Debt

The Educational Service Center had no debt in fiscal year 2006. 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 paid 60 percent of the costs for gas, electric, water, and janitorial services. For fiscal year 2006, the Educational Service Center paid 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 Gregory Spiess, Treasurer, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio, 45840-1978.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Statement of Net Assets
June 30, 2006**

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 590,616
Accounts Receivable	102,094
Intergovernmental Receivable	4,011
Prepaid Items	29,910
Depreciable Capital Assets, Net	<u>108,270</u>
<i>Total Assets</i>	<u>834,901</u>
Liabilities:	
Accrued Wages and Benefits Payable	278,331
Intergovernmental Payable	90,084
Long Term Liabilities:	
Due Within One Year	48,656
Due in More Than One Year	<u>45,080</u>
<i>Total Liabilities</i>	<u>462,151</u>
Net Assets:	
Invested in Capital Assets	108,270
Restricted For Other Purposes	57,518
Unrestricted	<u>206,962</u>
<i>Total Net Assets</i>	<u><u>\$ 372,750</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2006**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants, Contributions, and Interest	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 134,065	\$ 391,646	\$ 118,949	\$ 376,530
Special	841,104	2,175,662	870,911	2,205,469
Support services:				
Pupils	878,748			(878,748)
Instructional Staff	1,768,577			(1,768,577)
Board of Education	36,549			(36,549)
Administration	252,481			(252,481)
Fiscal	168,561		3,000	(165,561)
Operation and				
Maintenance of Plant	9,010	6,335		(2,675)
Pupil Transportation	2,155	7,406		5,251
Central	10,305	6,267	5,662	1,624
Non-Instructional Services	3,906	1,786	3,042	922
<i>Total Governmental Activities</i>	<u>\$ 4,105,461</u>	<u>\$ 2,589,102</u>	<u>\$ 1,001,564</u>	<u>(514,795)</u>

General Revenues:

Grants and Entitlements not Restricted to Specific Programs	491,930
Interest	19,185
Miscellaneous	22,320
<i>Total General Revenues</i>	<u>533,435</u>
<i>Change in Net Assets</i>	18,640
Net Assets Beginning of Year	354,110
<i>Net Assets End of Year</i>	<u>\$ 372,750</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2006**

	General Fund	Other Governmental Funds	Totals Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 536,216	\$ 54,400	\$ 590,616
Accounts Receivable	102,094		102,094
Intergovernmental Receivable		4,011	4,011
Interfund Receivable	24,050		24,050
Prepaid Items	29,910		29,910
<i>Total Assets</i>	<u>\$ 692,270</u>	<u>\$ 58,411</u>	<u>\$ 750,681</u>
Liabilities:			
Accrued Wages and Benefits Payable	\$ 277,899	\$ 432	\$ 278,331
Intergovernmental Payable	89,623	461	90,084
Deferred Revenue	32,395		32,395
<i>Total Liabilities</i>	<u>399,917</u>	<u>893</u>	<u>400,810</u>
Fund Balances:			
Reserved for Encumbrances	48,311	13,930	62,241
Unreserved Reported In			
General Fund	244,042		244,042
Special Revenue Funds		43,588	43,588
<i>Total Fund Balances</i>	<u>292,353</u>	<u>57,518</u>	<u>349,871</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 692,270</u>	<u>\$ 58,411</u>	<u>\$ 750,681</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, 2006**

Total Governmental Fund Balances	\$ 349,871
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.	108,270
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds: Accounts Receivable	32,395
Receivables from a fiduciary fund are considered interfund balances in the fund financial statements, but are not reported as internal balances in the government-wide statement of net assets. Interfund Receivable	(24,050)
Long-term liabilities are not due and payable in the current period and, therefore, not reported in the funds: Compensated Absences Payable	<u>(93,736)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 372,750</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Intergovernmental	\$ 1,284,955	\$ 208,540	\$ 1,493,495
Interest	19,185		19,185
Tuition and Fees	115,138		115,138
Customer Services	2,401,595	86,323	2,487,918
Miscellaneous	5,041		5,041
<i>Total Revenues</i>	<u>3,825,914</u>	<u>294,863</u>	<u>4,120,777</u>
Expenditures:			
Current:			
Instruction:			
Regular	58,172	74,114	132,286
Special	838,628	169	838,797
Support services:			
Pupils	867,431	12,948	880,379
Instructional Staff	1,568,089	184,990	1,753,079
Board of Education	36,549		36,549
Administration	245,810	3,800	249,610
Fiscal	167,848		167,848
Operation and Maintenance of Plant	9,010		9,010
Pupil Transportation	2,155		2,155
Central	8,045	2,260	10,305
Non-Instructional Services	2,264	1,642	3,906
<i>Total Expenditures</i>	<u>3,804,001</u>	<u>279,923</u>	<u>4,083,924</u>
<i>Net Change in Fund Balance</i>	21,913	14,940	36,853
Fund Balances at Beginning of Year	<u>270,440</u>	<u>42,578</u>	<u>313,018</u>
<i>Fund Balances at End of Year</i>	<u>\$ 292,353</u>	<u>\$ 57,518</u>	<u>\$ 349,871</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, 2006**

Net Change in Fund Balances - Total Governmental Funds \$ 36,853

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	5,564	
Depreciation	<u>(22,004)</u>	(16,440)

Receivables from a fiduciary fund are considered interfund balances in the fund financial statements, but are not reported as internal balances in the government-wide statement of net assets.

Interfund Receivable		(24,050)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Accounts		3,324
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Some expenses reported on the statement of activities, such as compensated absences payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Compensated Absences Payable		<u>18,953</u>
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<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$ 18,640</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006**

	<u>Investment Trust</u>	<u>Agency</u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	<u>\$ 7,077</u>	<u>\$ 90,085</u>
Liabilities:		
Undistributed Assets		\$ 89,727
Due to Students		358
Interfund Payable	<u>24,050</u>	
<i>Total Liabilities</i>	<u>24,050</u>	<u>\$ 90,085</u>
Net Assets:		
Held in Trust for External Pool Participants	<u>(16,973)</u>	
<i>Total Net Assets</i>	<u>\$ (16,973)</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2006**

	Investment Trust
Additions	
Interest	\$ 3,704
Deductions	
Distributions to Participants	3,704
Capital Transactions	158,999
<i>Total Deductions</i>	162,703
<i>Change in Net Assets</i>	(158,999)
Net Assets at Beginning of Year	142,026
<i>Net Assets at End of Year</i>	\$ (16,973)

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, 2006**

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, 45 classified employees, and 45 certified teaching personnel that provide services to 5,322 students from the local school districts.

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

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

The Educational Service Center participates in 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 School Improvement Team, 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.

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.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center's only trust fund is an investment trust fund, which accounts for the activity of the external investment pool participant, the West Central Regional School Improvement Team. 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.

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.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

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

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

Expenses/Expenditures

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

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

E. Cash and Investments

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

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

During fiscal year 2006, 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, 2006.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2006 was \$19,185.

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.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Capital Assets

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

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

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Buildings	5 years
Furniture, Fixtures, and Equipment	5 years
Vehicles	5 years

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

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

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.

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Net Assets

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

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

K. Fund Balance Reserves

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

L. Interfund Transactions

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

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

M. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

N. Estimates

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

NOTE 3 - DEPOSITS AND INVESTMENTS

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

Active monies are public monies 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 that 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.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

NOTE 3 - DEPOSITS AND INVESTMENTS – (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasury Asset Reserve of Ohio (STAR Ohio);
8. Certain commercial paper notes and bankers acceptances for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time, if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$247,934 of the Educational Service Center's bank balance of \$347,934 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Educational Service Center's name.

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

NOTE 3 - DEPOSITS AND INVESTMENTS – (Continued)

Investments

As of June 30, 2006, the Educational Service Center had \$590,822 invested in STAR Ohio.

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

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

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

NOTE 4 - INVESTMENT POOL

The Educational Service Center serves as fiscal agent for the West Central Regional School Improvement Team, 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. Condensed financial information for the investment pool follows:

Statement of Net Assets

June 30, 2006

<hr/>	
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$687,778</u>
Net Assets Held in Trust for Pool Participants:	
Internal Portion	\$680,701
External Portion	<u>7,077</u>
Total Net Assets Held in Trust for Pool Participants	<u>\$687,778</u>

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

NOTE 4 - INVESTMENT POOL – (Continued)

Statement of Changes In Net Assets For Fiscal Year Ended June 30, 2006	
Additions:	
Interest	\$22,889
Deductions:	
Distributions to Participants	(22,889)
Capital Transactions	(41,586)
Total Deductions	<u>(64,475)</u>
Change in Net Assets	(41,586)
Net Assets Beginning of Year	<u>729,364</u>
Net Assets End of Year	<u><u>\$687,778</u></u>

NOTE 5 - STATE FUNDING

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

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

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 2006, consisted of accounts and intergovernmental receivables. 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:	
Alternative Ed Challenge	<u>\$4,011</u>
Total Intergovernmental Receivables	<u><u>\$4,011</u></u>

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	\$86,294			\$86,294
Furniture, Fixtures, and Equipment	224,548	\$5,564		230,112
Vehicles	45,500			45,500
Total Depreciable Capital Assets	<u>356,342</u>	<u>5,564</u>		<u>361,906</u>
Less Accumulated Depreciation				
Buildings and Building Improvements	34,078	622		34,700
Furniture, Fixtures, and Equipment	193,004	18,349		211,353
Vehicles	4,550	3,033		7,583
Total Accumulated Depreciation	<u>231,632</u>	<u>22,004</u>		<u>253,636</u>
Depreciable Capital Assets, Net	<u>\$124,710</u>	<u>(\$16,440)</u>		<u>\$108,270</u>

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

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,779
Special	4,771
Support Services:	
Pupil	4,255
Instructional Staff	4,040
Administration	5,122
Fiscal	2,037
Total Depreciation Expense	<u>\$22,004</u>

NOTE 8 - INTERFUND RECEIVABLES/PAYABLES

At June 30, 2006, the General Fund had an unpaid interfund cash advance, in the amount of \$24,050, for a short-term loan made to the investment trust, fiduciary fund. This is expected to be repaid within one year.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

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 2006, the Educational Service Center contracted for the following insurance coverage:

<u>Coverage provided by the Ohio Schools Risk Sharing Authority:</u>	
Commercial Property Contents – replacement cost (\$1,000 deductible)	\$242,016
General Liability	
Per Occurrence	2,000,000
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 2006, 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 of coverage and deductibles selected by the participant.

For fiscal year 2006, 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 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 (the Fund), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Mental Retardation/Developmental Disabilities. The Educational Service Center pays monthly premiums to the Fund for employee medical, dental, vision, and life insurance benefits. The Fund is responsible for the management and operation of the program. Upon withdrawal from the Fund, a participant is responsible for the payment of all Fund liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System of Ohio

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary 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 divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

NOTE 10 - DEFINED BENEFIT PENSION PLANS – (Continued)

Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$314,120, \$299,398, and \$266,490, respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$7,766 made by the plan members.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$109,165, \$104,209, and \$78,951, respectively; 97 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

NOTE 10 - DEFINED BENEFIT PENSION PLANS – (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$24,163 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$46,539.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

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 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 2006 were as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Compensated Absences	<u>\$112,689</u>	<u>\$</u>	<u>\$18,953</u>	<u>\$93,736</u>	<u>\$48,656</u>

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 Educational Service Center and one additional representative from the Findlay City School District. Financial information can be obtained from the Findlay City School District Treasurer, 227 South West Street, Findlay, Ohio 45840-3377.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS – (Continued)

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 School Improvement Team

The West Central Regional School Improvement Team (the Team) 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 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 Team 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 Gregory Spiess, 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 SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Sheakley Workers' Compensation Group Rating Program

The Educational Service Center 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.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

NOTE 15 - INSURANCE POOLS – (Continued)

C. Hancock County Schools Health Benefit Fund

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

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

NOTE 16 - 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, 2006.

B. Litigation

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

**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, 2006**

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 1,306,513	\$ 1,338,513	\$ 1,294,454	\$ (44,059)
Interest	12,000	16,350	19,185	2,835
Tuition and Fees	129,543	129,543	142,174	12,631
Customer Services	2,510,686	2,528,780	2,425,161	(103,619)
Miscellaneous	6,300	4,300	3,217	(1,083)
<i>Total Revenues</i>	<u>3,965,042</u>	<u>4,017,486</u>	<u>3,884,191</u>	<u>(133,295)</u>
Expenditures:				
Current:				
Instruction:				
Regular	80,123	79,373	59,199	20,174
Special	852,755	868,955	836,189	32,766
Support services:				
Pupils	895,680	910,680	852,791	57,889
Instructional Staff	1,672,648	1,689,543	1,565,288	124,255
Board of Education	55,480	43,980	35,372	8,608
Administration	267,511	267,511	248,521	18,990
Fiscal	197,480	186,480	170,261	16,219
Business	2,500	2,500		2,500
Operation and Maintenance of Plant	9,989	10,414	9,196	1,218
Pupil Transportation	6,000	6,000	5,479	521
Central	19,544	16,544	14,490	2,054
Non-Instructional Services		2,700	2,264	436
<i>Total Expenditures</i>	<u>4,059,710</u>	<u>4,084,680</u>	<u>3,799,050</u>	<u>285,630</u>
<i>Excess of Revenues Over(Under) Expenditures</i>	<u>(94,668)</u>	<u>(67,194)</u>	<u>85,141</u>	<u>152,335</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	1,000	1,800	1,824	24
Advances Out		(20,259)	(24,050)	(3,791)
<i>Total Other Financing Sources (Uses)</i>	<u>1,000</u>	<u>(18,459)</u>	<u>(22,226)</u>	<u>(3,767)</u>
<i>Net Change in Fund Balance</i>	(93,668)	(85,653)	62,915	148,568
Fund Balance at Beginning of Year	396,175	396,175	396,175	
Prior Year Encumbrances Appropriated	28,814	28,814	28,814	
<i>Fund Balance at end of Year</i>	<u>\$ 331,321</u>	<u>\$ 339,336</u>	<u>\$ 487,904</u>	<u>\$ 148,568</u>

SEE ACCOMPANYING NOTES TO SUPPLEMENTAL INFORMATION

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to Supplemental Information
For the Fiscal Year Ended June 30, 2006**

BUDGETARY BASIS OF ACCOUNTING

A. Budgetary Process

There are no budgetary requirements for the Educational Service Center identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The Educational Service Center's Board adopts an annual appropriation resolution which is the Board's authorization to spend 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.

B. Budgetary Reconciliation

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 presented for the General 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:

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).

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Notes to Supplemental Information
For the Fiscal Year Ended June 30, 2006
(Continued)**

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

Net Change in Fund Balance	General
GAAP Basis	
Increase (Decrease) Due To:	\$21,913
Revenue Accruals:	
Accrued FY 2005, Received In Cash FY 2006	102,846
Accrued FY 2006, Not Yet Received in Cash	(69,699)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(257,395)
Accrued FY 2006, Not Yet Paid in Cash	337,611
Advance-Out	(24,050)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(48,311)
Budget Basis	\$62,915

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Mary Taylor, CPA

Auditor of State

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

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

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hancock County Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 2006, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated February 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Educational Service Center's management dated February 6, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the finance and audit committee, management, and the Governing Board. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

February 6, 2007



Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER

HANCOCK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 8, 2007