Perry-Hocking Educational Service Center

Perry County, Ohio

Single Audit

For the Fiscal Year Ended June 30, 2007

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Auditor of State

Board of Education
Perry-Hocking Educational Service Center
1605 Airport Road
New Lexington, Ohio 43764

We have reviewed the *Independent Auditor's Report* of the Perry-Hocking Educational Service Center, Perry County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Perry-Hocking Educational Service Center is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 6, 2008

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Perry Hocking Educational Service Center
Perry County, Ohio

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Independent Auditor's Report

Members of the Board
Perry Hocking Educational Service Center
1605 Airport Road
New Lexington, Ohio 43764

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Perry Hocking Educational Service Center (the Center), Perry County, as of and for the year ended June 30, 2007, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 Center, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, 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 January 31, 2008 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

January 31, 2008

The discussion and analysis of the Perry-Hocking Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Educational Service Center's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2007 are as follows:

- In total, net assets increased $136,005.

- Program specific revenues, in the form of charges for services and sales and operating grants and contributions, accounted for $6,415,544, or 90 percent of total revenues.

- The Educational Service Center had $6,962,753 in total expenses, only $6,415,544 of these expenses were offset by program specific charges for services and sales and operating grants and contributions. The remaining $547,209 of these expenses were offset by general revenues.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Perry-Hocking Educational Service Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column.

Reporting the Educational Service Center as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the Educational Service Center to provide programs and activities for students, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two 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 that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the 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, non-instructional services, and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 7. Fund financial statements provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund and the Miscellaneous State Grants Special Revenue Fund.

Governmental Funds Most of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using an accounting method called 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 general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating receipts over (under) operating disbursements and changes in net assets. Proprietary funds are classified as enterprise or internal service and the Educational Service Center only has an internal service fund which is used to account for their self-insurance program for employee dental, vision and healthcare reimbursement claims.

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. The Educational Service Center's fiduciary funds are agency funds which are used to maintain financial activity of the Educational Service Center employee flexible spending plans. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

THE EDUCATIONAL SERVICE CENTER AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2007 compared to 2006.

Table 1
Net Assets

	Governmental Activities	
	2007	2006
Assets		
Current and Other Assets	$ 1,188,413	$ 1,229,153
Capital Assets	565,817	544,617
Total Assets	1,754,230	1,773,770
Liabilities		
Long-term Liabilities	274,681	267,576
Current and Other Liabilities	898,798	1,061,448
Total Liabilities	1,173,479	1,329,024
Net Assets		
Invested in Capital Assets, Net of Debt	523,572	491,952
Restricted	8,552	1,560
Unrestricted	48,627	(48,766)
Total Net Assets	$ 580,751	$ 444,746

Total net assets increased $136,005. This increase is primarily due to a decrease in current and other liabilities resulting from a decrease in accounts payable from the prior year.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007 as compared to 2006.

Table 2
Changes in Net Assets

	Governmental Activities	
	2007	2006
Revenues		
Program Revenues		
Charges for Services and Sales	$ 3,683,454	$ 3,403,569
Operating Grants and Contributions	2,732,090	2,715,926
Total Program Revenues	6,415,544	6,119,495
General Revenues		
Grants and Entitlements Not Restricted	574,029	867,013
Investment Earnings	27,789	23,059
Gifts and Donations Not Restricted	2,359	1,450
Miscellaneous	79,037	41,546
Total General Revenues	683,214	933,068
Total Revenues	7,098,758	7,052,563
Program Expenses		
Instruction:		
Regular	710,209	898,943
Special	862,963	830,729
Adult/Continuing	36,883	23,257
Other	91,054	222,915
Support Services:		
Pupils	1,122,821	991,916
Instructional Staff	2,469,134	2,219,290
Board of Education	35,805	66,491
Administration	1,187,500	1,535,474
Fiscal	199,244	307,573
Operation and Maintenance of Plant	121,809	137,169
Pupil Transportation	15,610	5,222
Central	82,485	75,871
Operation of Non-Instructional Services	17,795	36,111
Extracurricular Activities	4,523	3,783
Interest and Fiscal Charges	4,918	4,855
Total Expenses	6,962,753	7,359,599
Change in Net Assets	136,005	(307,036)
Net Assets, Beginning of Year	444,746	751,782
Net Assets, End of Year	$ 580,751	$ 444,746

Charges for services increased $279,885 primarily as a result of increased revenue from Alpha Alternative School and increased revenue from foundation contracts. General revenue grants and entitlements decreased $292,984 as a result of a decrease in SIRI grant revenue as well as other grants received by the Educational Service Center. Overall, total revenues increased $46,195.

Expenses for regular instruction, administration support services and fiscal support services decreased $188,734, $347,974, and $108,329, respectively, and expenses for instructional staff support services increased $249,844. These variances, as well as other less significant increases and decreases, resulted in a decrease in total expenses of $396,846. These variances reflect changing contract staffing needs and fiscal fees due to changes in grants received by the Educational Service Center.

Governmental Activities

Charges for services and sales comprised 52 percent of revenue for governmental activities, while operating grants and contributions comprised 38 percent of revenue for governmental activities of the Service Center for fiscal year 2007.

As indicated by governmental program expenses, support services are emphasized. Support services instructional staff comprised 35 percent of governmental program expenses with support services administration and support services pupils comprising 17 and 16 percent, respectively, of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and sales, grants and contributions offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements and other general revenues.

Table 3
Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program Expenses				
Instruction:				
Regular	$ 710,209	$ 48,262	$ 898,943	$ 164,512
Special	862,963	104,616	830,729	(64,448)
Adult/Continuing	36,883	(61)	23,257	5,233
Other	91,054	(42,972)	222,915	37,755
Support Services:				
Pupils	1,122,821	113,963	991,916	233,513
Instructional Staff	2,469,134	153,489	2,219,290	453,034
Board of Education	35,805	4,420	66,491	16,569
Administration	1,187,500	99,898	1,535,474	318,780
Fiscal	199,244	23,565	307,573	66,952
Operation and Maintenance of Plant	121,809	17,676	137,169	39,081
Pupil Transportation	15,610	226	5,222	885
Central	82,485	11,170	75,871	17,719
Operation of Non-Instructional Services	17,795	8,015	36,111	(51,352)
Extracurricular Actvities	4,523	24	3,783	640
Interest and Fiscal Charges	4,918	4,918	4,855	1,231
Total	$ 6,962,753	$ 547,209	$ 7,359,599	$ 1,240,104

THE EDUCATIONAL SERVICE CENTER FUNDS

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of $7,149,082 and expenditures and other financing uses of $7,092,529. The net change in fund balance for the year was most significant in the Miscellaneous State Grants fund.

The fund balance of the General Fund decreased $12,045. Tuition and fees revenue increased due to increases in revenue from general tuition, foundation contracts and Alpha Alternative School. Intergovernmental revenue decreased due to a decrease in grant revenues received. Although total revenues were $17,955 higher than total expenditures, the General Fund transferred $30,000 to the Permanent Improvement Fund resulting in a decrease in fund balance.

The fund balance of the Miscellaneous State Grants fund increased $14,314. Although there was a decrease in grant revenues received, there was also a corresponding decrease in salary expenditures relating to those grants. These variances reflect changing contract staffing needs due to changes in grants received by the Educational Service Center.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2007, the Educational Service Center had $565,817 invested in land, buildings and improvements, furniture, fixtures and equipment, and vehicles. Table 4 shows fiscal year 2007 balances compared to 2006.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2007	2006
Land	$ 193,898	$ 193,898
Buildings and Improvements	185,408	166,536
Furniture, Fixtures and Equipment	180,666	176,667
Vehicles	5,845	7,516
Totals	$ 565,817	$ 544,617

For additional capital asset information, see Note 7 to the basic financial statements.

Debt

At June 30, 2007, the Educational Service Center had capital leases outstanding of $42,245 for copiers. For additional information on debt, see Note 12 to the basic financial statements.

CONTACTING THE EDUCATIONAL SERVICE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kathy Sampson, Treasurer at Perry-Hocking Educational Service Center, 1605 Airport Road, New Lexington, Ohio 43764.

Perry-Hocking Educational Service Center
Statement of Net Assets
June 30, 2007

		Governmental Activities
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	$	935,018
Accounts Receivable		39,773
Intergovernmental Receivable		213,622
Noncurrent Assets:		
Non-Depreciable Capital Assets		193,898
Depreciable Capital Assets, net		371,919
Total Assets		1,754,230
LIABILITIES:		
Current Liabilities:		
Accounts Payable		113,475
Accrued Wages and Benefits		569,277
Intergovernmental Payable		199,112
Claims Payable		16,934
Noncurrent Liabilities:		
Long-Term Liabilities:		
Due Within One Year		17,507
Due in More Than One Year		257,174
Total Liabilities		1,173,479
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		523,572
Restricted for Capital Outlay		3,771
Restricted for Other Purposes		4,781
Unrestricted		48,627
Total Net Assets	$	580,751

The notes to the basic financial statements are an integral part of this statement.

Perry-Hocking Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2007

		Program Revenues		
	Expenses	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Net (Expense) Revenue and Changes in Net Assets**
Governmental Activities:				
Instruction:				
Regular	$ 710,209	$ 341,995	$ 319,952	$ (48,262)
Special	862,963	679,504	78,843	(104,616)
Adult/Continuing	36,883	1,675	35,269	61
Other	91,054	6,078	127,948	42,972
Support Services:				
Pupils	1,122,821	719,686	289,172	(113,963)
Instructional Staff	2,469,134	1,090,896	1,224,749	(153,489)
Board of Education	35,805	25,997	5,388	(4,420)
Administration	1,187,500	538,341	549,261	(99,898)
Fiscal	199,244	138,414	37,265	(23,565)
Operation and Maintenance of Plant	121,809	80,047	24,086	(17,676)
Pupil Transportation	15,610	1,535	13,849	(226)
Central	82,485	58,638	12,677	(11,170)
Operation of Non-Instructional Services	17,795	444	9,336	(8,015)
Extracurricular Activities	4,523	204	4,295	(24)
Interest and Fiscal Charges	4,918	-	-	(4,918)
Total Governmental Activities	$ 6,962,753	$ 3,683,454	$ 2,732,090	(547,209)
	General Revenues:			
	Grants and Entitlements not Restricted to Specific Programs			574,029
	Gifts and Donations not Restricted to Specific Programs			2,359
	Investment Earnings			27,789
	Miscellaneous			79,037
	Total General Revenues			683,214
	Change in Net Assets			136,005
	Net Assets Beginning of Year			444,746
	Net Assets End of Year			$ 580,751

The notes to the basic financial statements are an integral part of this statement.

Perry-Hocking Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2007

	General	Miscellaneous State Grants	All Other Governmental Funds	Total Governmental Funds
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	$ 426,587	$ 59,967	$ 180,580	$ 667,134
Accounts Receivable	38,550	-	1,223	39,773
Interfund Receivable	43,553	-	-	43,553
Intergovernmental Receivable	107,924	-	105,698	213,622
Total Assets	616,614	59,967	287,501	964,082
LIABILITIES:				
Accounts Payable	6,587	27,711	79,177	113,475
Accrued Wages and Benefits	481,421	13,284	74,572	569,277
Interfund Payable	-	-	43,553	43,553
Intergovernmental Payable	160,112	12,790	26,210	199,112
Deferred Revenue	30,000	-	10,304	40,304
Total Liabilities	678,120	53,785	233,816	965,721
FUND BALANCES:				
Reserved:				
Reserved for Encumbrances	5,027	5,158	135,924	146,109
Unreserved, Undesignated, Reported in:				
General Fund	(66,533)	-	-	(66,533)
Special Revenue Funds	-	1,024	(85,839)	(84,815)
Capital Projects Funds	-	-	3,600	3,600
Total Fund Balances	(61,506)	6,182	53,685	(1,639)
Total Liabilities and Fund Balances	$ 616,614	$ 59,967	$ 287,501	$ 964,082

The notes to the basic financial statements are an integral part of this statement.

Perry-Hocking Education Service Center
Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2007

Total Governmental Fund Balances		$ (1,639)
Amounts reported for governmental activities in the statement of net assets are different because		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.		565,817
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Intergovernmental	30,000	
Tuition and fees	10,304	40,304
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		250,950
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Capital Leases	(42,245)	
Compensated Absences	(232,436)	(274,681)
Net Assets of Governmental Activities		$ 580,751

The notes to the basic financial statements are an integral part of this statement.

Perry-Hocking Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Miscellaneous State Grants	All Other Governmental Funds	Total Governmental Funds
REVENUES:				
Intergovernmental	$ 858,999	$ 880,051	$ 1,563,848	$ 3,302,898
Interest	27,789	-	-	27,789
Tuition and Fees	3,591,214	-	115,785	3,706,999
Gifts and Donations	-	-	2,359	2,359
Miscellaneous	-	-	79,037	79,037
Total Revenues	4,478,002	880,051	1,761,029	7,119,082
EXPENDITURES:				
Current:				
Instruction:				
Regular	404,329	-	306,890	711,219
Special	833,736	-	25,967	859,703
Adult/Continuing	-	-	36,908	36,908
Other	-	-	134,739	134,739
Support Services:				
Pupils	890,832	6,700	237,505	1,135,037
Instructional Staff	1,294,350	600,889	602,304	2,497,543
Board of Education	32,305	-	3,500	35,805
Administration	647,614	242,924	292,990	1,183,528
Fiscal	168,302	14,280	13,424	196,006
Operation and Maintenance of Plant	99,203	944	17,587	117,734
Pupil Transportation	1,100	-	14,510	15,610
Central	72,938	-	8,381	81,319
Operation of Non-Instructional Services	-	-	9,832	9,832
Extracurricular Activities	-	-	4,523	4,523
Capital Outlay	-	-	27,685	27,685
Debt Service:				
Principal	10,420	-	-	10,420
Interest	4,918	-	-	4,918
Total Expenditures	4,460,047	865,737	1,736,745	7,062,529
Excess of Revenues Over (Under) Expenditures	17,955	14,314	24,284	56,553
OTHER FINANCING SOURCES AND USES:				
Transfers In	-	-	30,000	30,000
Transfers Out	(30,000)	-	-	(30,000)
Total Other Financing Sources and Uses	(30,000)	-	30,000	-
Net Change in Fund Balances	(12,045)	14,314	54,284	56,553
Fund Balances at Beginning of Year	(49,461)	(8,132)	(599)	(58,192)
Fund Balances at End of Year	$ (61,506)	$ 6,182	$ 53,685	$ (1,639)

The notes to the basic financial statements are an integral part of this statement.

Perry-Hocking Educational Service Center
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds		$ 56,553
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:		
Capital Asset Additions	98,111	
Depreciation Expense	(76,911)	
		21,200
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Intergovernmental	3,220	
Tuition and Fees	(23,545)	
		(20,325)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		85,682
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		10,420
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Increase in Compensated Absences	(17,525)	
		(17,525)
Change in Net Assets of Governmental Activities		$ 136,005

The notes to the basic financial statements are an integral part of this statement.

Perry-Hocking Educational Service Center
Statement of Net Assets - Govermental Activities
Internal Service Fund
June 30, 2007

	Internal Service
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	$ 267,884
Total Assets	267,884
LIABILITIES:	
Current Liabilities:	
Claims Payable	16,934
Total Liabilities	16,934
NET ASSETS:	
Unrestricted	250,950
Total Net Assets	$ 250,950

The notes to the basic financial statements are an integral part of this statement.

Perry-Hocking Educational Service Center
Statement of Revenues, Expenses and Changes in Fund Net Assets - Govermental Activities
Internal Service Fund
For the Fiscal Year Ended June 30, 2007

		Internal Service
OPERATING REVENUES:		
Charges for Services	$	823,367
Total Operating Revenues		823,367
OPERATING EXPENSES:		
Purchased Services		24,458
Claims		713,227
Total Operating Expenses		737,685
Changes in Net Assets		85,682
Net Assets at Beginning of Year		165,268
Net Assets at End of Year	$	250,950

The notes to the basic financial statements are an integral part of this statement.

Perry-Hocking Educational Service Center
Statement of Cash Flows - Govermental Activities
Internal Service Fund
For the Fiscal Year Ended June 30, 2007

	Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Customers	$823,367
Cash Payments for Claims	(707,742)
Cash Payments for Purchased Services	(24,458)
Net Cash Provided by Operating Activities	91,167
Cash and Cash Equivalents at Beginning of Year	176,717
Cash and Cash Equivalents at End of Year	$267,884
Reconcilitation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	$85,682
Changes in Assets and Liabilities:	
Increase in Claims Payable	5,485
Net Cash Provided by Operating Activities	$91,167

The notes to the basic financial statements are an integral part of this statement.

Perry-Hocking Educational Service Center

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2007

Assets		
Equity in Pooled Cash and Cash Equivalents	$	5,152
Total Assets	$	5,152
Liabilities		
Undistributed Monies	$	5,152
Total Liabilities	$	5,152

The notes to the basic financial statements are an integral part of this statement.

Note 1 – Reporting Entity

The Perry-Hocking Educational Service Center (the “Educational Service Center” or “ESC”) is located in New Lexington, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Northern, Southern, Logan-Hocking Local School Districts, the New Lexington City School District, and the Crooksville Exempted Village 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 Board of Education consisting of seven members elected at-large for staggered four year terms. The Educational Service Center has two administrators, 68 certified teaching personnel, and 102 classified employees that provide services to 10,476 students from the local, exempted village, and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For Perry-Hocking Educational Service Center, this includes general operations, preschool, adult/continuing instruction, 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. The Educational Service Center has no component units.

The Educational Service Center participates in four jointly governed organizations and two insurance purchasing pools. These organizations are the Southeast Ohio Voluntary Educational Consortium, Tri-County Joint Vocational School District, the Mid-East Ohio Joint Vocational School District, the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Workers’ Compensation Group Rating Program, and the Ohio School Plan, which are presented in Notes 13 and 14 to the basic financial statements.

The ESC serves as fiscal agent for the Ohio Department of Education for funding provided to the Southeast service area, one of twelve multi-county regions created throughout the state for the purpose of coordinating and delivering a statewide system of school improvement support through regional school improvement teams (RSITs). The Southeast Region includes Athens, Fairfield, Gallia, Hocking, Meigs, Perry, Vinton and Washington counties. The agreement for the fiscal year ended June 30, 2007 entered into between the Ohio Department of Education and the ESC provided for the ESC to administer, with the support of the Southeast RSIT, Professional Development and Technical Assistance services and Praxis III services. The financial activity of these services is reflected in special revenue funds of the ESC.

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Summary of Significant Accounting Policies *(Continued)*

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 which 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.

A. Basis of Presentation

Government-wide Financial Statements The statement of net assets presents the financial condition of the governmental 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; 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 function 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. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

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. The funds used by this Educational Service Center can be classified using three categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically 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:

> ***General Fund*** The General Fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.
>
> ***Miscellaneous State Grants Special Revenue Fund*** The Miscellaneous State Grant Special Revenue Fund accounts for various monies received from state agencies which are not classified elsewhere.

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

Note 2 - Summary of Significant Accounting Policies *(Continued)*

B. Fund Accounting *(Continued)*

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the Educational Service Center has no enterprise funds.

> ***Internal Service Fund*** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis. The Educational Service Center's only internal service fund accounts for the Educational Service Center's self-insurance program for employee dental, vision, and healthcare reimbursement claims.

Fiduciary Fund Type 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 therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The Educational Service Center's fiduciary funds are agency funds, which account for resources held for other organizations and for employee flexible spending plans. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

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 all liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements All governmental funds are accounted for using the flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are 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.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Educational Service Center finances and meets the cash flow needs of its proprietary activity.

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. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Note 2 - Summary of Significant Accounting Policies *(Continued)*

D. Basis of Accounting *(Continued)*

Revenues – Exchange and Non-Exchange 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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. On an 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 a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, 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.

E. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2007, investments were limited to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for at June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General fund during fiscal year 2007 amounted to $27,789.

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 as cash and cash equivalents.

Note 2 - Summary of Significant Accounting Policies *(Continued)*

F. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Estimated Lives
Buildings and Improvements	20-25 years
Furniture, Fixtures, and Equipment	5-15 years
Vehicles	5 years

G. Interfund Activity

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. Interfund transfers are eliminated in the governmental activities column of the statement of activities.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means.

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 employees after ten years of service.

I. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in 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, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Capital leases are recognized as a liability on the governmental fund financial statements when due.

Note 2 - Summary of Significant Accounting Policies *(Continued)*

J. Interfund Balances

On the fund financial statements, receivables and payables resulting from transactions between funds for services provided or goods received are classified as "Due to/from Other Funds". Also, receivables and payables resulting from short-term interfund loans and unpaid amounts for interfund services are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

K. Fund Balance Reserves

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net 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 for specific purposes.

The Educational Service Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

As of June 30, 2007, the Educational Service Center had $8,552 in restricted net assets, none of which was restricted by enabling legislation.

M. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

N. Budgetary Process

Although not legally required, 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.

In fiscal year 2004, the Educational Service Center's requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Educational Service Center was discretionary, the Educational Service Center continued to have its Board approve appropriations and estimated revenues. 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 fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board.

Note 2 - Summary of Significant Accounting Policies *(Continued)*

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Educational Service Center, these revenues are charges for services for medical, life, and dental benefits provided to employees. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

Note 3 - 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 that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

1. United States treasury notes, bills, bonds, or other obligations or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;

2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of the State or its political subdivisions;

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 footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

7. The State Treasurer's investment pool (STAR Ohio);

Note 3 - Deposits and Investments *(Continued)*

8. Securities lending agreements in which the Educational Service Center lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) of this footnote, or cash, or both securities and cash, equal value for equal value;

9. High grade commercial paper in an amount not to exceed five percent of the Educational Service Center's total average portfolio; and

10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the Educational Service Center's average portfolio.

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation, 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 within the institution.

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 is the risk that in the event of a bank failure, the Educational Service Center's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The Educational Service Center's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

As of June 30, 2007, the Educational Service Center's bank balance of $716,642 is either covered by FDIC or collateralized by the financial institutions' public entity pools in the manner described above.

Investments The Educational Service Center's investments are listed as follows:

	Uncategorized	Weighted Average Maturity (Yrs.)
STAR Ohio	$ 451,946	< 1 Year

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Educational Service Center's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of two years. The Treasurer cannot make investments which he/she does not reasonably believe can be held until the maturity date. 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 Center, and that an investment must be purchased with the expectation that it will be held to maturity. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Note 3 - Deposits and Investments *(Continued)*

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. STAR Ohio carries a rating of AAAm 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 Center has no investment policy that would further limit its investment choices.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Educational Service Center's investment policy addresses credit risk by stating the Educational Service Center should normally seek to diversify its holdings of other investments by avoiding concentrations of specific issuers. 100% of the Educational Service Center's investment is with STAR Ohio.

Custodial credit risk – Custodial credit risk 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. All of the Educational Service Center's investments are either insured and registered in the name of the Educational Service Center or at least registered in the name of the Educational Service Center.

Note 4 – 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, city and exempted village 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 $10.75. Each city school district's portion is determined by multiplying the average daily membership of the city school district (the total number of students enrolled) by $6.50. Each exempted village school district's portion is determined by multiplying the average daily membership of the exempted village 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 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, city and exempted village 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, city and exempted village 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, city and exempted village school districts approve or disapprove the additional apportionment.

Note 5 - Receivables

Receivables at June 30, 2007, consisted of accounts, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected in one year.

A summary of the principal items of intergovernmental receivables follows:

Major Fund:	
General	$ 107,924
Total Major Fund	107,924
Non-Major Special Revenue Funds:	
Special Trust	$ 10,473
Public School Preschool	25,738
Alternative School	2,555
ABLE	6,779
Title I	3,543
Handicapped Preschool	991
Miscellaneous Federal Grants	55,619
Total Non-Major Special Revenue Funds	105,698
Total All Funds	$ 213,622

Note 6 - Risk Management

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During fiscal year 2007, the Educational Service Center contracted with Westfield Insurance Company for property insurance. The types and amounts of coverage provided are as follows:

Property:	
Building	$ 294,192
Business Personal Property	75,000
Crime:	
Employee Dishonesty	10,000
Theft, Disappearance or Destruction	5,000
Inland Marine:	
Equipment	168,518

Note 6 - Risk Management *(Continued)*

A. Property and Liability *(Continued)*

During fiscal year 2007, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district and educational service center enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP. (See Note 14)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurrence	$ 1,000,000
Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Personal and Advertising injury Limit - Each Offense	1,000,000
Fire Damage Limit - Any One Event	500,000
Excess Liability:	
Each Occurrence	1,000,000
Aggregate Limit	1,000,000
Employer's Liability:	
Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Disease - Policy Limit	1,000,000
Employee's Benefits Liability:	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000

Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. There has been no significant reduction in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2007, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Dental, Vision, and Healthcare Reimbursement Account Benefits

Dental, vision and healthcare reimbursement insurance is offered to employees through a self-insurance internal service fund. The fund is responsible for claims up to a specified amount per individual per year. The Health Reimbursement Account has an annual maximum aggregate of $1,000,000. Settled claims have not exceeded this coverage in any of the past three fiscal years.

Note 6 - Risk Management *(Continued)*

The claims liability of $16,934 reported in the internal service fund at June 30, 2007, is based upon an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Beginning of Year	Current Year Claims	Claims Payments	End of Year
2006	$ 5,309	$ 736,262	$ 730,122	$ 11,449
2007	11,449	713,227	707,742	16,934

Note 7 – Capital Assets

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

	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007
Capital Assets:				
Capital Assets not being Depreciated:				
Land	$ 193,898	$ -	$ -	$ 193,898
Total Capital Assets not being Depreciated	193,898	-	-	193,898
Depreciable Capital Assets:				
Buildings and Improvements	179,744	26,616	-	206,360
Furniture, Fixtures, and Equipment	521,921	71,495	(3,153)	590,263
Vehicles	16,706	-	-	16,706
Total Depreciable Capital Assets	718,371	98,111	(3,153)	813,329
Less Accumulated Depreciation:				
Buildings and Improvements	(13,208)	(7,744)	-	(20,952)
Furniture, Fixtures, and Equipment	(345,254)	(67,496)	3,153	(409,597)
Vehicles	(9,190)	(1,671)	-	(10,861)
Total Accumulated Depreciation	(367,652)	(76,911)	3,153	(441,410)
Total Capital Assets being Depreciated, Net	350,719	21,200	-	371,919
Capital Assets, Net	$ 544,617	$ 21,200	$ -	$ 565,817

Note 7 – Capital Assets *(Continued)*

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	$	1,565
Special		2,568
Adult/Continuing		619
Other		7,963
Support Services:		
Pupils		2,536
Instructional Staff		13,028
Administration		28,484
Fiscal		1,819
Operation and Maintenance of Plant		17,163
Central		1,166
Total Depreciation Expense	$	76,911

Note 8 - Defined Benefit Pension Plans

A. 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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; 10.68% is the percentage used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, were $133,752, $174,624, and $129,263, respectively; 55 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

The Educational Service Center contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio 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 State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877 or by visiting the STRS Ohio website at www.strsoh.org.

Note 8 - Defined Benefit Pension Plans *(Continued)*

B. State Teachers Retirement System *(Continued)*

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

Note 8 - Defined Benefit Pension Plans *(Continued)*

B. State Teachers Retirement System *(Continued)*

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For fiscal year 2007, plan members are required to contribute 10% of their annual covered salaries. The Educational Service Center was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were $368,607, $376,973, and $367,564, respectively; 82% has been contributed for fiscal year 2007 and 100% for fiscal years 2006 and 2005.

Note 9 - Postemployment Benefits

The Educational Service Center provides access to health care coverage to retired teachers who participated in the Defined Benefit or Combined Plans and their dependents through the State Teachers Retirement System (STRS) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits under the current program 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 the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Ohio Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year 2007, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled $26,329 for fiscal year 2007. At June 30, 2007, the balance in the Fund was $4.1 billion. For the year ended June 30, 2007, net health care costs paid by STRS were $265,558,000 and STRS had 122,934 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, 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.

Note 9 - Postemployment Benefits *(Continued)*

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2007, the healthcare allocation is 3.32%. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $31,718.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006 (the latest year available) were $158,751,207. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was $295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 59,492.

Note 10- Employee Benefits

A. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to classified and administrative employees.

Health insurance is provided by Anthem Blue Cross and Blue Shield. Monthly premiums for this coverage are $941.50 for family coverage and $315.53 for single coverage. The School District pays 90% of both family and single coverage premiums.

B. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time (limited to amount earned and unused from previous two years plus current year earned and unused amounts) is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Earned vacation may be carried over to the next year, to a maximum allowed by Ohio Revised Code upon the approval of the Superintendent.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave accumulation shall be cumulative up to 260 days. Upon retirement, payment is made to employees at 25 percent up to a maximum of 50 days.

Note 11 – Capital Leases – Lessee Disclosure

The Educational Service Center has entered into capitalized leases for copiers. Each lease meets the criteria of a capital lease as defined by the Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the fund financial statements. The capital leases payable have been recorded on the government-wide statements.

Future minimum lease payments as of June 30, 2007 are as follows:

Year	Amount
2008	$ 15,338
2009	15,338
2010	15,338
2011	3,836
Total	49,850
Less: Amount Representing Interest	(7,605)
Present Value of Net Minimum Lease Payments	$ 42,245

The equipment was originally capitalized in the amount of $59,811. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2007 were $10,420 in the governmental funds.

Property Under Capital Lease	$ 59,811
Less: Accumulated Depreciation	(20,934)
Total June 30, 2007	$ 38,877

Note 12 - Long-Term Obligations

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

	Principal Outstanding 06/30/06	Additions	Deductions	Principal Outstanding 6/30/07	Amounts Due in One Year
Governmental Activities:					
Capital Leases	$ 52,665	$ -	$ 10,420	$ 42,245	$ 11,539
Compensated Absences	214,911	232,436	214,911	232,436	5,968
Total Governmental Activities Long-Term Liabilities	$ 267,576	$ 232,436	$ 225,331	$ 274,681	$ 17,507

Capital leases will be paid from the General Fund. Sick leave benefits will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, and the Public Preschool, Miscellaneous State Grants, and Adult Basic Literacy Education Special Revenue Funds.

Note 13 - Jointly Governed Organizations

A. Southeast Ohio Voluntary Educational Consortium

The Southeast Ohio Voluntary Educational Consortium (SEOVEC) is a jointly governed organization created as a regional council of governments pursuant to State statutes. SEOVEC provides financial accounting services, educational management information, and cooperative purchasing services to its members. Each member pays a fee annually for services provided by SEOVEC.

SEOVEC is governed by a governing board which is selected by the members. Each member has one vote in all matters, and each member's control over budgeting and financing of SEOVEC is limited to its voting authority and any representation it may have on the governing board. SEOVEC operates with its own Treasurer. The continued existence of SEOVEC is not dependent on the School District's continued participation and no equity interest exists. SEOVEC has no outstanding debt. During fiscal year 2007, the Educational Service Center paid $6,156 to SEOVEC. To obtain financial information write to the Southeast Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, 221 North Columbus Road, Athens, Ohio 45701.

B. Tri-County Joint Vocational School District

The Tri-County Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven representatives from the various City, County, and Educational Service Center Boards within Athens, Hocking, and Perry Counties. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Tri-County Joint Vocational School District, Laura Carney, Treasurer, 15676 State Route 691, Nelsonville, Ohio, 45764.

C. Mid-East Ohio Joint Vocational School District

The Mid-East Ohio Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of thirteen representatives from the various City, County, and Educational Service Center Boards within Perry, Guernsey, and Muskingum Counties. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Mid-East Ohio Joint Vocational School District, Cindy Nye, Treasurer, 1965 Chandlersville Road, Zanesville, Ohio, 43701.

D. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools consists of over one hundred school districts and educational service centers in southeastern Ohio. The Coalition is operated by a fourteen member Board which consists of one superintendent from each County elected by the school districts and educational service centers within that County. The Council provides various services for school district and educational service center administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for member personnel. The Coalition is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Coalition. The Educational Service Center paid the Coalition of Rural and Appalachian Schools $375 for services provided during the year.

Note 14 - Insurance Purchasing Pool

A. Ohio School Boards Association Workers' Compensation Group Rating Program
The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Ohio School Plan
The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of member superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Note 15 - Contingencies

A. Grants

The Educational Service Center receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2007.

B. Litigation

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

Note 16 – Interfund Transactions

Interfund Payables/Receivables

At June 30, 2007, the Center had short-term interfund loans which are classified as "interfund receivables/payables." An analysis of interfund balances is as follows:

	Receivables	Payables
Major Fund		
General Fund	$ 43,553	$ -
Total Major Fund	43,553	-
Non-Major Fund:		
Miscellaneous Federal Grants	-	43,553
Total All Funds	$ 43,553	$ 43,553

Note 16 – Interfund Transactions *(Continued)*

During the year, the Educational Service Center's General Fund made advances to other funds in anticipation of intergovernmental grant revenue.

Interfund Transfers

Transfers made during the period ended June 30, 2007 were as follows:

Major Fund:	Transfers Out	Transfers In
General Fund	$ 30,000	$ -
Non-Major Fund:		
Permanent Improvement	-	30,000
Total	$ 30,000	$ 30,000

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

Note 17 – Accountability

At June 30, 2007, the General Fund, Teacher Development, Alternative School, ABLE, and Miscellaneous Federal Grants Special Revenue Funds had deficit fund balances of $61,506, $13,362, $6,427, $2,220, and $37,067 respectively, which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 18 – Subsequent Events

Effective with fiscal year 2008, the Educational Service Center will no longer serve as fiscal agent for the Ohio Department of Education for the Southeast Regional School Improvement Team (RSIT).

Perry-Hocking Educational Service Center
Perry County
Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2007

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
United States Department of Education				
Direct Award				
Fund for the Improvement of Education	U215XOSO149	84.215X	$ 314,422	$ 314,422
Passed through Ohio Department of Education				
Adult Education State Grant Program	ABS1	84.002	44,528	46,628
Title I Grants to Local Educational Agencies	C1ST	84.010	7,764	7,762
Safe and Drug Free Schools and Communities State Grants	DRS1	84.186	31,248	31,248
Special Education Preschool Grants	PGS1	84.173	34,464	31,758
Twenty-First Century Community Learning Centers	T1S1	84.287	308,112	307,001
Total United States Department of Education			740,538	738,819
United States Department of Health and Human Services				
Passed through Administration for Children and Families, Department of Health and Human Services				
Medical Assistance Program	NA	93.778	33	-
Temporary Assistance for Needy Families	NA	93.558	57,688	103,119
Total United States Department of Health and Human Services			57,721	103,119
Total Federal Financial Assistance			$ 798,259	$ 841,938

NA - Not Available
See accompanying notes to the schedule of federal awards expenditures

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures includes the federal grant activity of the Perry Hocking Educational Service Center and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – MEDICAL ASSISTANCE PROGRAM

As of July 1, 2005, the Community Alternative Funding System (CAFS) program (CFDA #93.778) no longer exists as a funding stream. All remittances subsequent to this date reflect settlements of past years. In fiscal year 2007, the District received $33 in settlements related to expenditures made in prior years.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Governing Board
Perry Hocking Educational Service Center
1605 Airport Road
New Lexington, Ohio 43764

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Perry Hocking Educational Service Center, (the Center), as of and for the year ended June 30, 2007, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 31, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Center's financial statements that is more than inconsequential will not be prevented or detected by the Center's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Center's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Balestra, Harr & Scherer, CPAs, Inc.

January 31, 2008

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Governing Board
Perry Hocking Educational Service Center
1605 Airport Road
New Lexington, Ohio 43764

Compliance

We have audited the compliance of the Perry Hocking Educational Service Center, (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

Internal Control Over Compliance (Continued)

A control deficiency in the Center's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Center's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Center's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

January 31, 2008

PERRY- HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY
JUNE 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.215X Fund for the Improvement of Education
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > $300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2007

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

Mary Taylor, CPA
Auditor of State

PERRY-HOCKING EDUCATIONAL SERVICE CENTER

PERRY 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 18, 2008

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