



Dave Yost • Auditor of State

EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hancock County Educational Service Center, (the Educational Service Center), as of and for the year ended June 30, 2009, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Hancock County Educational Service Center, as of June 30, 2009, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2011, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in

accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

February 22, 2011

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED**

The discussion and analysis of the Hancock County Educational Service Center's (the Educational Service Center) financial performance provides an overall review of our Educational Service Center's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for 2009 are as follows:

In total, net assets decreased \$340,653, which represents a 77 percent decrease from fiscal year 2008. The need for cash carryover spending resulted in some of this decrease. Another contributing factor was increases to the liabilities related to accrued wages and compensated absences (estimate of future severance payments). The Educational Service Center employs a substantial number of employees whose employment is dependent on various service contracts with school districts.

Program specific revenues, in the form of charges for services and operating grants and contributions accounted for \$4,806,468, or 92 percent of total revenues.

The Educational Service Center had \$5,544,793 in total expenses, 87 percent of which were offset by program specific charges for services and operating grants and contributions.

Using the Basic Financial Statements

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

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

Reporting the Educational Service Center as a Whole

The statement of net assets and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2009. These statements include all assets and liabilities using the accrual basis of accounting similar to what are used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)**

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

Reporting the Educational Service Center's Most Significant Funds

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

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

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

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net assets for fiscal year 2009 compared to fiscal year 2008.

| Table 1 | | |
|----------------------------------------------------|-------------|--------------------------|
| Net Assets | | |
| | 2009 | Restated 2008 |
| <u>Assets:</u> | | |
| Current and Other Assets | \$1,053,720 | \$1,037,604 |
| Capital Assets, Net | 54,191 | 66,745 |
| Total Assets | 1,107,911 | 1,104,349 |
| <u>Liabilities:</u> | | |
| Current and Other Liabilities | 639,120 | 509,416 |
| Long-Term Liabilities | 367,673 | 153,162 |
| Total Liabilities | 1,006,793 | 662,578 |
| <u>Net Assets:</u> | | |
| Invested in Capital Assets, Net of Related Debt | 54,191 | 66,745 |
| Restricted | 35,380 | 44,075 |
| Unrestricted | 11,547 | 330,951 |
| Total Net Assets | \$101,118 | \$441,771 |

Total assets increased \$3,562, or less than 1 percent. Total liabilities increased \$344,215 or 52 percent as a result of increases of compensated absences and accrued wages. Total net assets decreased \$340,653, or 77 percent.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2009 compared to fiscal year 2008.

**Table 2
Change in Net Assets**

| | <u>2009</u> | <u>2008</u> |
|------------------------------------|--------------------|------------------|
| <u>Revenues:</u> | | |
| Program Revenues: | | |
| Charges for Services and Sales | \$4,140,463 | \$3,717,909 |
| Operating Grants, Contributions | 666,005 | 613,314 |
| General Revenues: | | |
| Grants and Entitlements | 368,110 | 491,807 |
| Interest | 8,614 | 23,358 |
| Miscellaneous | 20,948 | 23,318 |
| Total Revenues | <u>5,204,140</u> | <u>4,869,706</u> |
| <u>Program Expenses:</u> | | |
| Instruction: | | |
| Regular | 123,718 | 107,638 |
| Special | 1,440,014 | 1,007,333 |
| Other | | 300 |
| Support Services: | | |
| Pupils | 1,092,508 | 945,735 |
| Instructional Staff | 1,995,292 | 1,920,661 |
| Board of Education | 35,418 | 31,924 |
| Administration | 451,983 | 379,750 |
| Fiscal | 225,399 | 200,639 |
| Operation and Maintenance of Plant | 72,556 | 56,176 |
| Pupil Transportation | 89,731 | 80,678 |
| Central | 15,023 | 14,478 |
| Non-Instructional | <u>3,151</u> | <u>3,161</u> |
| Total Expenses | <u>5,544,793</u> | <u>4,748,473</u> |
| Increase/(Decrease) in Net Assets | <u>(\$340,653)</u> | <u>\$121,233</u> |

The Table reflects an increase in charges for services and operating grants and contributions. Total revenues increased \$334,434 or 7 percent. Program revenues have consistently accounted for in excess of 88 percent of total revenues for the last three fiscal years. Total expenses increased approximately 17 percent.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)**

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

**Table 3
Cost of Services**

| | Total Cost of Services 2009 | Net Cost of Services 2009 | Total Cost of Services 2008 | Net Cost of Services 2008 |
|------------------------------------|--------------------------------------------|------------------------------------------|--------------------------------------------|------------------------------------------|
| Instruction: | | | | |
| Regular | \$123,718 | (\$761,173) | \$107,638 | (\$497,255) |
| Special | 1,440,014 | (2,106,439) | 1,007,333 | (2,555,329) |
| Other | | | 300 | 300 |
| Support Services: | | | | |
| Pupils | 1,092,508 | 1,075,877 | 945,735 | 945,735 |
| Instructional Staff | 1,995,292 | 1,995,292 | 1,920,661 | 1,920,661 |
| Board of Education | 35,418 | 35,418 | 31,924 | 31,924 |
| Administration | 451,983 | 246,177 | 379,750 | 376,550 |
| Fiscal | 225,399 | 225,399 | 200,639 | 200,639 |
| Operation and Maintenance of Plant | 72,556 | 72,556 | 56,176 | 48,826 |
| Pupil Transportation | 89,731 | (40,842) | 80,678 | (51,570) |
| Central | 15,023 | 333 | 14,478 | (1,248) |
| Non-Instructional Services | 3,151 | (4,273) | 3,161 | (1,983) |
| Total Expenses | <u>\$5,544,793</u> | <u>\$738,325</u> | <u>\$4,748,473</u> | <u>\$417,250</u> |

A review of Table 3 reflects the net cost of instructional services was (\$2,867,612). At first glance, this would indicate the Educational Service Center received resources well in excess of that needed to support the instruction program. However, further review reflects a deficiency in support services of \$3,610,210. These activities support the Educational Service Center's ability to provide instruction. The net cost of activities of \$738,325, or 13 percent of total expenses was supported by general revenues.

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Total revenues were \$5,204,140 and expenditures were \$5,317,728. The Educational Service Center's major fund, the General Fund, decreased \$104,893 due to the result of expenditures exceeding revenues for the fiscal year and due to cash carryover spending.

Capital Assets

At the end of fiscal year 2009, the Educational Service Center had \$54,191 invested in capital assets (net of accumulated depreciation). For further information regarding the Educational Service Center's capital assets, see Note 7 to the basic financial statements.

Debt

The Educational Service Center had no debt in fiscal year 2009. The only long-term obligations of the Educational Service Center are related to compensated absences. For further information regarding the Educational Service Center's long-term obligations, see Note 12 to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED
(Continued)**

Contacting the Educational Service Center's Financial Management

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

EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY

Statement of Net Assets
June 30, 2009

| | Governmental Activities |
|-------------------------------------------------|------------------------------------|
| Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$ 896,924 |
| Accounts Receivable | 1,245 |
| Intergovernmental Receivable | 104,046 |
| Prepaid Items | 51,505 |
| Depreciable Capital Assets, Net | 54,191 |
| Total Assets | <u>1,107,911</u> |
| Liabilities: | |
| Accrued Wages and Benefits Payable | 529,387 |
| Matured Compensated Absences Payable | 18,841 |
| Intergovernmental Payable | 90,892 |
| Long Term Liabilities: | |
| Due Within One Year | 73,703 |
| Due in More Than One Year | 293,970 |
| Total Liabilities | <u>1,006,793</u> |
| Net Assets: | |
| Invested in Capital Assets, Net of Related Debt | 54,191 |
| Restricted For Other Purposes | 35,380 |
| Unrestricted | 11,547 |
| Total Net Assets | <u>\$ 101,118</u> |

SEE ACCOMPANYING NOTES AND ACCOUNTANTS' REPORT TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2009**

| | | Program Revenues | | Net(Expense) Revenue and Changes in Net Assets |
|------------------------------------|-----------------|-----------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------|
| | Expenses | Charges for Services and Sales | Operating Grants, Contributions, and Interest | Governmental Activities |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 123,718 | \$ 778,595 | \$ 106,296 | \$ 761,173 |
| Special | 1,440,014 | 3,007,674 | 538,779 | 2,106,439 |
| Support services: | | | | |
| Pupils | 1,092,508 | 13,631 | 3,000 | (1,075,877) |
| Instructional Staff | 1,995,292 | | | (1,995,292) |
| Board of Education | 35,418 | | | (35,418) |
| Administration | 451,983 | 205,806 | | (246,177) |
| Fiscal | 225,399 | | | (225,399) |
| Operation and Maintenance of Plant | 72,556 | | | (72,556) |
| Pupil Transportation | 89,731 | 129,908 | 665 | 40,842 |
| Central | 15,023 | | 14,690 | (333) |
| Non-Instructional Services | 3,151 | 4,849 | 2,575 | 4,273 |
| Total Governmental Activities | \$ 5,544,793 | \$ 4,140,463 | \$ 666,005 | \$ (738,325) |

General Revenues:

| | |
|-------------------------------------------------------------|---------------|
| Grants and Entitlements not Restricted to Specific Programs | 368,110 |
| Investment Earnings | 8,614 |
| Miscellaneous | 20,948 |
| Total General Revenues | 397,672 |
| Change in Net Assets | (340,653) |
| Net Assets Beginning of Year - Restated (Note 3) | 441,771 |
| Net Assets End of Year | \$ 101,118 |

SEE ACCOMPANYING NOTES AND ACCOUNTANTS' REPORT TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2009**

| | General Fund | Other Governmental Funds | Totals Governmental Funds |
|--------------------------------------------|-------------------------|-----------------------------------------|------------------------------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 859,676 | \$ 37,248 | \$ 896,924 |
| Accounts Receivable | 1,245 | | 1,245 |
| Intergovernmental Receivable | 97,003 | 7,043 | 104,046 |
| Prepaid Items | 51,505 | | 51,505 |
| Total Assets | \$ 1,009,429 | \$ 44,291 | \$ 1,053,720 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accrued Wages and Benefits Payable | \$ 520,956 | \$ 8,431 | \$ 529,387 |
| Matured Compensated Absences | 18,841 | | 18,841 |
| Intergovernmental Payable | 90,412 | 480 | 90,892 |
| Total Liabilities | 630,209 | 8,911 | 639,120 |
| Fund Balances: | | | |
| Reserved for Encumbrances | 12,416 | 2,309 | 14,725 |
| Unreserved Reported In | | | |
| General Fund | 366,804 | | 366,804 |
| Special Revenue Funds | | 33,071 | 33,071 |
| Total Fund Balances | 379,220 | 35,380 | 414,600 |
| Total Liabilities and Fund Balances | \$ 1,009,429 | \$ 44,291 | \$ 1,053,720 |

SEE ACCOMPANYING NOTES AND ACCOUNTANTS' REPORT TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
For the Fiscal Year Ended June 30, 2009**

| | | |
|-----------------------------------------------------------------------------------------------------------------------|----|----------------|
| Total Governmental Fund Balances | \$ | 414,600 |
| Amounts reported for governmental activities on the statement of net assets are different because of the following: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds. | | 54,191 |
| Long-term liabilities are not due and payable in the current period and, therefore, not reported in the funds: | | |
| Compensated Absences Payable | | (367,673) |
| Net Assets of Governmental Activities | \$ | <u>101,118</u> |

SEE ACCOMPANYING NOTES AND ACCOUNTANTS' REPORT TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2009**

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------------------------|-------------------------|-----------------------------------------|-----------------------------------------|
| Revenues: | | | |
| Intergovernmental | \$ 862,596 | \$ 171,519 | \$ 1,034,115 |
| Interest | 8,614 | | 8,614 |
| Tuition and Fees | 1,713,401 | 6,690 | 1,720,091 |
| Customer Services | 2,420,372 | | 2,420,372 |
| Miscellaneous | 20,948 | | 20,948 |
| Total Revenues | 5,025,931 | 178,209 | 5,204,140 |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 66,587 | 50,104 | 116,691 |
| Special | 1,360,647 | 6,892 | 1,367,539 |
| Support services: | | | |
| Pupils | 1,025,484 | | 1,025,484 |
| Instructional Staff | 1,812,310 | 125,472 | 1,937,782 |
| Board of Education | 35,418 | | 35,418 |
| Administration | 439,455 | 800 | 440,255 |
| Fiscal | 224,195 | | 224,195 |
| Operation and Maintenance of Plant | 69,741 | 22 | 69,763 |
| Pupil Transportation | 81,813 | 614 | 82,427 |
| Central | 12,023 | 3,000 | 15,023 |
| Operation of Non-Instructional Services | 3,151 | | 3,151 |
| Total Expenditures | 5,130,824 | 186,904 | 5,317,728 |
| Net Change in Fund Balance | (104,893) | (8,695) | (113,588) |
| | | | |
| Fund Balances at Beginning of Year - Restated (Note 3) | 484,113 | 44,075 | 528,188 |
| Fund Balances at End of Year | \$ 379,220 | \$ 35,380 | \$ 414,600 |

SEE ACCOMPANYING NOTES AND ACCOUNTANTS' REPORT TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2009

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ (113,588) |
| Amounts reported for governmental activities on the statement of activities are different because of the following: | |
| Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year. | |
| Depreciation | (12,554) |
| Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds: | |
| Compensated Absences Payable | (214,511) |
| Change in Net Assets of Governmental Activities | \$ <u>(340,653)</u> |

SEE ACCOMPANYING NOTES AND ACCOUNTANTS' REPORT TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY

Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2009

| | | |
|--------------------------------------------|----|---------------|
| Assets: | | |
| Equity in Pooled Cash and Cash Equivalents | \$ | <u>48,848</u> |
| Liabilities: | | |
| Undistributed Assets | | 48,179 |
| Due to Students | | <u>669</u> |
| Total Liabilities | \$ | <u>48,848</u> |

SEE ACCOMPANYING NOTES AND ACCOUNTANTS' REPORT TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 1 - REPORTING ENTITY

The Hancock County Educational Service Center (the Educational Service Center) is located in Findlay, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Arcadia, Arlington, Cory Rawson, Liberty Benton, McComb, Van Buren, and Vanlue Local School Districts and the Findlay City School District. The Educational Service Center furnishes these services to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Governing Board consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 16 administrators, 41 classified employees, and 37 certified teaching personnel that provide services to students from the local and city school districts.

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for various student managed activities and resources held for other organizations.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

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

Expenses/Expenditures

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

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments

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

During fiscal year 2009, investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2009.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2009 was \$8,614.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2009, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Capital Assets

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

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

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

| <u>Description</u> | <u>Useful Lives</u> |
|------------------------------------|---------------------|
| Buildings | 25 years |
| Furniture, Fixtures, and Equipment | 5 - 15 years |
| Vehicles | 20 years |

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Absences

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

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

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Net Assets

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

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

K. Fund Balance Reserves

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Interfund Transactions

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

M. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither of these items occurred during fiscal year 2009.

N. Estimates

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

NOTE 3 – RESTATEMENT OF FUND BALANCE/NET ASSETS

In the prior fiscal year, the Educational Service Center reported a fund incorrectly and made errors in recording capital assets. The restatement had the following effect on fund balance of the major and nonmajor funds of the Educational Service Center as they were previously reported.

| | General | Other Governmental | Total Governmental Funds |
|----------------------------------------|------------------|-----------------------|--------------------------------|
| Fund Balance at June 30, 2009 | \$484,113 | \$34,379 | \$518,492 |
| Change in Fund Structure | | 9,696 | 9,696 |
| Restated Fund Balance at June 30, 2009 | <u>\$484,113</u> | <u>\$44,075</u> | <u>\$528,188</u> |

The restatement had the following effect on net assets.

| | Governmental Activities |
|--------------------------------------|----------------------------|
| Net Assets at June 30, 2009 | \$475,978 |
| Change in Fund Structure | 9,696 |
| Capital Assets | (64,651) |
| Accumulated Depreciation | 20,748 |
| Restated Net Assets at June 30, 2009 | <u>\$441,771</u> |

NOTE 4 - DEPOSITS AND INVESTMENTS

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain commercial paper notes and bankers acceptances for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time, if training requirements have been met.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

Investments

As of June 30, 2009, the Educational Service Center had \$769,417 invested in STAR Ohio.

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

STAR Ohio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center does not have an investment policy that would further limit its investment choices.

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

NOTE 5 - STATE FUNDING

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

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

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 6 - RECEIVABLES

Receivables at June 30, 2009, consisted of accounts (billings for user charged services) and intergovernmental. All receivables are considered collectible in full and within one year.

A summary of the principal items of intergovernmental receivables follows:

| | Amount |
|--------------------------------|-----------|
| Governmental Activities | |
| General Fund | |
| Various School Districts | \$97,003 |
| Other Governmental Funds | |
| Alternative School Program | 2,805 |
| Miscellaneous State Grants | 4,238 |
| Total Other Governmental Funds | 7,043 |
| Total Governmental Activities | \$104,046 |

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

| | Restated Balance at 6/30/08 | Additions | Reductions | Balance at 6/30/09 |
|-------------------------------------|-----------------------------------|------------|------------|-----------------------|
| Governmental Activities | | | | |
| Depreciable Capital Assets | | | | |
| Buildings and Building Improvements | \$61,711 | | | \$61,711 |
| Furniture, Fixtures, and Equipment | 245,218 | | (\$29,570) | 215,648 |
| Vehicles | 13,500 | | | 13,500 |
| Total Depreciable Capital Assets | 320,429 | | (29,570) | 290,859 |
| Less Accumulated Depreciation | | | | |
| Buildings and Building Improvements | (40,568) | (\$995) | | (41,563) |
| Furniture, Fixtures, and Equipment | (213,116) | (10,698) | 29,570 | (194,244) |
| Vehicles | | (861) | | (861) |
| Total Accumulated Depreciation | 253,684 | (12,554) | 29,570 | (236,668) |
| Depreciable Capital Assets, Net | \$66,745 | (\$12,554) | | \$54,191 |

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 7 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|----------|
| Instruction: | |
| Regular | \$3,385 |
| Special | 1,667 |
| Support Services: | |
| Pupil | 970 |
| Instructional Staff | 4,830 |
| Administration | 353 |
| Fiscal | 1,349 |
| Total Depreciation Expense | \$12,554 |

NOTE 8 – RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the Educational Service Center contracted for the following insurance coverage:

| | |
|----------------------------------------------------------------------|-----------|
| Coverage provided by the Ohio Schools Risk Sharing Authority: | |
| Commercial Property Contents – replacement cost | \$346,880 |
| General Liability | |
| Per Occurrence | 3,000,000 |
| Total Per Year | 5,000,000 |
| Errors and Omissions | 1,000,000 |

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year. For fiscal year 2009, the Educational Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant.

For fiscal year 2009, the Educational Service Center participated in the Sheakley Workers' Compensation Group Rating Program, an insurance purchasing pool. The program is intended to achieve the benefit of a reduced premium for the school districts and educational service centers by virtue of its grouping and representation with other participants in the program.

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Educational Service Center's required contribution to SERS for the fiscal years ending June 30, 2009, 2008, and 2007 were \$132,328, \$120,555 and \$119,074 respectively; 95 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System

Plan Description - The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan (CP). The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or on an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DB Plan and the DC Plan. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC Plan and CP members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC Plan or CP. Existing members with less than five years of service credit as of June 30, 2002, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or CP. This option expired on December 31, 2002. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

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

Funding Policy - For the fiscal year ended June 30, 2009, plan members are required to contribute 10 percent of their annual covered salaries. The Educational Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2008, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ending June 30, 2009, 2008, and 2007, were \$372,991, \$330,501 and \$316,896 respectively; 81 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$12,219 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the School Retirement System. As of June 30, 2009, two of the Governing Board members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The Educational Service Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, this amount was \$17,233.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 10 - POST-EMPLOYMENT BENEFITS (Continued)

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2009, 2008 and 2007 were \$60,559, \$55,013, and \$39,533 respectively; 90 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2009, this actuarially required allocation was .75 percent of covered payroll. The Educational Service Center's contribution for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 was \$10,918, \$8,686, and \$8,097 respectively; 95 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System

Plan Description – The Educational Service Center contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund.

The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2009, 2008, and 2007 was \$28,692, \$25,423, and \$24,377 respectively; 81 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

**EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 11 - OTHER EMPLOYEE BENEFITS (Continued)

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

B. Health Care Benefits

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

NOTE 12 - LONG-TERM OBLIGATIONS

Changes in the Educational Service Center's long-term obligations during fiscal year 2009 were as follows:

| | <u>Balance at 6/30/08</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at 6/30/09</u> | <u>Amounts Due Within One Year</u> |
|---------------------------------|-------------------------------|------------------|-------------------|-------------------------------|--------------------------------------------|
| Governmental Activities: | | | | | |
| Compensated Absences | \$153,162 | \$214,511 | | \$367,673 | \$73,703 |

Compensated absences will be paid from the General Fund.

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

A. Millstream Career and Technology Center

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

B. Hancock County Local Professional Development Committee

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from Hancock County Educational Service Center, who serves as fiscal agent, 7746 County Road 140, Findlay, Ohio 45840-1978.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 14 - INSURANCE POOLS

A. Schools of Ohio Risk Sharing Authority

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

B. Sheakley Workers' Compensation Group Rating Program

The Educational Service Center participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (the "Plan"), an insurance purchasing pool through Sheakley Workers' Compensation Group Rating Program. The intent of the Plan is to achieve the benefit of a reduced premium for the Educational Service Center by the virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

C. Hancock County Schools Health Benefit Fund

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

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

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 15 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2009.

B. Litigation

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

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Dave Yost • Auditor of State

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

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

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hancock County Education Service Center, (the Education Service Center) as of and for the year ended June 30, 2009, which collectively comprise the Education Service Center's basic financial statements and have issued our report thereon dated February 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2009-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

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

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

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

February 22, 2011

EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2009

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

FINDING NUMBER 2009-001

Material Weakness – Monitoring of Financial Activity

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

The fiscal year 2009 financial statement contained the following errors:

- Program revenue ranging in the amounts of \$2,575 to \$1,366,947 were adjusted to match revenue generated by the activity.
- Intergovernmental revenue in the amount of \$43,200 was reported as customer services.
- Accounts receivable in the amount of \$237,428 was adjusted off and intergovernmental receivables of \$97,003 were added on.
- Matured compensated absences of \$18,841 were added.
- Compensated absences for those probable for retirement were added in the amount of \$125,459.

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

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

To ensure the Educational Service Center's financial statements and notes to the statements are complete and accurate, we recommend the Board adopt policies and procedures, including a final review of the statements and notes by the Treasurer and Board, to identify and correct errors and omissions.

Officials' Response:

The Educational Service Center has contracted with the Auditor of State's Local Government Services Division to prepare the 2010 financial statements.

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|----------------------------------|------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| 2008-001 | Monitoring of Financial Activity | No | Repeated as Finding Number 2009-001, in this report. |



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HANCOCK COUNTY EDUCATIONAL SERVICE CENTER

HANCOCK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 15, 2011