



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



HANCOCK COUNTY EDUCATIONAL SERVICE CENTER

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## REPORT OF INDEPENDENT ACCOUNTANTS

Educational Service Center  
Hancock County  
7746 County Road 140, Suite 1  
Findlay, Ohio 45840-1792

To the Governing Board:

We have audited the accompanying basic financial statements of the Hancock County Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 2001, as listed in the table of contents. These basic financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these basic 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hancock County Educational Service Center, as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2001, the Educational Service Center adopted Governmental Accounting Standards Board Statements 33, 34 and Interpretation No. 6.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2002 on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Educational Service Center, taken as a whole. The accompanying schedule of federal awards receipts and expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. 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.

**Jim Petro**  
Auditor of State

March 27, 2002

**Hancock County Educational Service Center**  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2001  
Unaudited

The discussion and analysis of Hancock County Educational Service Center's financial performance provides an overall review of our Educational Service Center's financial activities for the fiscal year ended June 30, 2001. 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 fiscal year 2001 are as follows:

In total, net assets increased \$71 thousand, which represents a 93 percent increase from fiscal year 2000.

Total assets increased \$101 thousand primarily from increased cash and cash equivalents and intergovernmental receivables at the end of the fiscal year.

General revenues accounted for \$575 thousand in revenue or 16 percent of all revenues. Program specific revenues, in the form of charges for services and operating grants and contributions, accounted for \$2,960 thousand or 84 percent of total revenues of \$3,535 thousand.

The Educational Service Center had \$3,464 thousand in total expenses; \$2,960 thousand 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. These statements are organized so the reader can understand Hancock County Educational Service Center's operations and activities as a whole, or as an entire operating entity.

The statement of net assets and 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 greater detail of review. 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 presentation is meant to enhance the financial statements.

**Reporting Hancock County Educational Service Center as a Whole**

Statement of Net Assets and Statement of Activities – How did the Hancock County Educational Service Center do financially during the fiscal year 2001?

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 system used by for-profit businesses, financial institutions, and the stockholders of those companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash was received or paid.

These two statements report net assets and changes in those assets. This change in net assets is valuable in analyzing these statements. These results indicate whether the financial position has improved or diminished. The cause of this change may be the result of many factors. Some factors may be financial while other factors will be non-financial. Non-financial factors include mandated educational programs, as well as locally requested programs.

**Hancock County Educational Service Center**  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2001  
Unaudited

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 reports provide detailed information about the Educational Service Center's major funds. The fund financial statements focus on the Educational Service Center's most significant funds, which include the General Fund, and the Alternative School and Title VI-B special revenue funds.

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 the modified accrual method of 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  
Net Assets  
(In Thousands)

	Governmental Activities	
	2001	2000
<u>Assets:</u>		
Current and Other Assets	\$632	\$487
Capital Assets, Net	93	138
Total Assets	<u>725</u>	<u>625</u>
<u>Liabilities:</u>		
Current and Other Liabilities	449	435
Long-Term Liabilities	129	114
Total Liabilities	<u>578</u>	<u>549</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	\$93	\$132
Restricted	90	93
Unrestricted (Deficit)	(36)	(149)
Total Net Assets	<u>\$147</u>	<u>\$76</u>

**Hancock County Educational Service Center**  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2001  
Unaudited

Table 1 is a comparison of governmental activities for fiscal years 2001 and 2000. Total assets increased \$100 thousand, or 16 percent. Total liabilities increased \$29 thousand, or 5 percent. Total net assets increased \$71 thousand, or an increase of 93 percent. This increase can be attributed to a 24 percent increase in cash and cash equivalents and a 76 percent increase in intergovernmental receivables. Invested in capital assets, net of related debt decreased \$39 thousand due to the disposal of vehicles.

Table 2 reflects the changes in net assets for fiscal year 2001. Since this is the first year the Educational Service Center has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2000 are not available. In fiscal year 2002, when prior year fiscal year information is available, a comparative analysis of government-wide data will be presented.

Table 2  
Change in Net Assets  
(In Thousands)

	Governmental Activities 2001
<u>Revenues</u>	
Program Revenues:	
Charges for Services	\$1,440
Operating Grants and Contributions	1,520
General Revenues:	
Grants and Entitlements	519
Interest	46
Miscellaneous	10
Total Revenues	3,535
<u>Program Expenses</u>	
Instruction	\$1,015
Support Services:	
Pupils and Instructional Staff	1,652
Board of Education, Administration, Fiscal, and Business	354
Operation and Maintenance of Plant	11
Pupil Transportation	2
Central	1
Non-Instructional Services	88
Intergovernmental	321
Interest and Fiscal Charges	1
Loss on Disposal of Capital Assets	19
Total Expenses	3,464
Increase in Net Assets	\$71

**Hancock County Educational Service Center**  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2001  
Unaudited

The statement of activities reflects the cost of program services and the charges for services and operating grants and contributions offsetting those services. Table 3 indicates the total cost of services and the net cost of services. Comparisons to fiscal year 2000 have not been made since they are not available due to the initial implementation of GASB Statement No. 34.

Table 3  
Cost of Services  
(In Thousands)

	Total Cost of Services 2001	Net Cost of Services 2001
Instruction	\$1,015	(\$1,047)
Support Services:		
Pupils and Instructional Staff	1,652	1,259
Board of Education, Administration, Fiscal, and Business	354	290
Operation and Maintenance of Plant	11	3
Pupil Transportation	2	2
Central	1	(3)
Non-Instructional Services	88	4
Intergovernmental	321	(24)
Interest and Fiscal Charges	1	1
Loss on Disposal of Capital Assets	19	19
Total Expenses	\$3,464	\$504

A review of Table 3 reflects the net cost of instructional services was (\$1,047) thousand. At first glance, this would indicate that 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 \$1,551. These activities support the Educational Service Center's ability to provide instruction. Under the Educational Service Center's present method of recording program expenses, there is insufficient detail to allocate these expenses against the instruction program and the other activities of the Educational Service Center. The net cost of activities of \$504 thousand, or 14 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 and other financing sources were \$3,524 thousand and expenditures were \$3,419 thousand, which indicates the Educational Service Center was able to meet current costs.

Fund balances in the General and Title VI-B funds increased by \$117,757 and \$25,184, respectively while the fund balance in the Alternative School fund decreased by \$9,057. The change in the General fund is not considered significant and is attributed to cyclical changes in revenues and expenditures. The change in the Title VI-B fund is directly related to an increase in grant funding. The decrease in the Alternative School fund balance was caused by funding received in fiscal year 2000 for which corresponding expenditures were not made until fiscal year 2001.

**Hancock County Educational Service Center**  
 Management's Discussion and Analysis  
 For Fiscal Year Ended June 30, 2001  
 Unaudited

**Budgeting Highlights**

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

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

For the General Fund, final budgeted revenues and other financing sources, in the amount of \$2,839 thousand were above the original budgeted revenues and other financing sources, in the amount of \$2,620 thousand. The difference of \$219 thousand is attributed to intergovernmental revenues and customer services and based on conservative estimates in school foundation revenues and charges to the seven local school districts.

Expenditures were budgeted at \$2,958 thousand while actual expenditures were \$2,749 thousand. The difference of \$209 thousand is largely the result of budgeting salaries for twelve months based on current contracts even though the first two months actual expenditures will be at the prior year contract amounts.

The General Fund's actual revenues and other financing sources exceeded expenditures by \$108 thousand. The Board believes that this was a good financial position for the fiscal year ended June 30, 2001.

**Capital Assets**

At the end of fiscal year 2001, the Educational Service Center had \$93 thousand invested in capital assets.

Table 4  
 Capital Assets  
 (Net of Depreciation, in Thousands)

	Governmental Activities	
	2001	2000
Buildings and Building Improvements	\$18	\$25
Furniture, Fixtures, and Equipment	75	79
Vehicles	0	34
Totals	\$93	\$138

The decrease in capital assets is primarily due to the disposal of vehicles, the Educational Service Center sold its driver education vehicles to LaRiche Chevrolet.

Buildings consist of a modular classroom currently located at Van Buren Local School District. The modular classroom is on a rotating cycle and will be located at Vanlue Local School District in fiscal year 2002.

**Hancock County Educational Service Center**  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2001  
Unaudited

**Debt**

In fiscal year 2001, the Educational Service Center fully retired the loan that was outstanding in the prior fiscal year.

**Current Issues**

Amended Substitute House Bill 94 allows County Commissioners to charge rent for facilities occupied by Educational Service Centers. Previously, the Hancock County Commissioners provided office facilities at no cost to the Educational Service Center. The County Commissioners have adopted a resolution to charge the Educational Service Center \$94,000 annually to rent 10,711 square feet. This cost is being phased in over a five year period, with 20 percent, or \$18,800, being charged in the current fiscal year. The cost increases 20 percent per year until 100 percent is charged to the Educational Service Center in fiscal year 2006. This cost will flow through to the seven local school districts.

**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 about this report or additional financial information needs should be directed to Bradley Browne, Treasurer, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio, 45840.

Hancock County Educational Service Center

Statement of Net Assets

June 30, 2001

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$496,740
Accounts Receivable	2,961
Intergovernmental Receivable	117,665
Prepaid Items	14,913
Depreciable Capital Assets, Net	92,661
Total Assets	<u>724,940</u>
<u>Liabilities:</u>	
Accounts Payable	1,841
Accrued Wages and Benefits Payable	193,680
Intergovernmental Payable	254,211
Long-Term Liabilities:	
Due Within One Year	43,616
Due in More Than One Year	84,911
Total Liabilities	<u>578,259</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	92,661
Restricted For:	
Other Purposes	90,374
Unrestricted (Deficit)	<u>(36,354)</u>
Total Net Assets	<u>\$146,681</u>

*See Accompanying Notes to the Basic Financial Statements*

**Hancock County Educational Service Center**  
**Statement of Activities**  
For the Fiscal Year Ended June 30, 2001

	Program Revenues		Net (Expense)	
	Charges for	Operating Grants	Revenue and	
Expenses	Services	and Contributions	Change in	
			Net Assets	
			Governmental	
			Activities	
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$347,913	\$144,487	\$200,245	(\$3,181)
Special	666,752	1,153,544	563,541	1,050,333
Support Services:				
Pupils	592,011	73,326	14,990	(503,695)
Instructional Staff	1,060,791		304,943	(755,848)
Board of Education	12,944			(12,944)
Administration	203,832		1,735	(202,097)
Fiscal	131,572	53,306	10,426	(67,840)
Business	7,129			(7,129)
Operation and Maintenance of Plant	11,361	7,883	216	(3,262)
Pupil Transportation	1,724			(1,724)
Central	536	3,194		2,658
Non-Instructional Services	87,584	2,650	80,872	(4,062)
Intergovernmental	320,594		344,703	24,109
Interest and Fiscal Charges	501			(501)
Loss on Disposal of Capital Assets	18,803			(18,803)
Total Governmental Activities	<u>\$3,464,047</u>	<u>\$1,438,390</u>	<u>\$1,521,671</u>	<u>(503,986)</u>

General Revenues:

Grants and Entitlements Not	
Restricted to Specific Programs	518,912
Interest	45,618
Miscellaneous	10,138
Total General Revenues	<u>574,668</u>

Change in Net Assets 70,682

Net Assets Beginning of Year 75,999

Net Assets End of Year \$146,681

*See Accompanying Notes to the Basic Financial Statements*

**Hancock County Educational Service Center**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2001**

	General	Alternative School	Title VI-B	Other Governmental	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$375,478	\$67,723	\$25,721	\$27,818	\$496,740
Accounts Receivable	2,961				2,961
Interfund Receivable	3,633				3,633
Intergovernmental Receivable	84,108		33,557		117,665
Prepaid Items	13,793		1,120		14,913
<b>Total Assets</b>	<b>\$479,973</b>	<b>\$67,723</b>	<b>\$60,398</b>	<b>\$27,818</b>	<b>\$635,912</b>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities:</u>					
Accounts Payable	\$119	\$172		\$1,550	\$1,841
Interfund Payable				3,633	3,633
Accrued Wages and Benefits Payable	178,104	2,127	\$7,947	5,502	193,680
Intergovernmental Payable	209,577	4,481	35,354	4,799	254,211
Deferred Revenue	20,701		10,482		31,183
<b>Total Liabilities</b>	<b>408,501</b>	<b>6,780</b>	<b>53,783</b>	<b>15,484</b>	<b>484,548</b>
<u>Fund Balances:</u>					
Reserved for Encumbrances	15,266	7,645		15,618	38,529
Unreserved, Reported in:					
General Fund	56,206				56,206
Special Revenue Funds		53,298	6,615	(3,284)	56,629
<b>Total Fund Balances</b>	<b>71,472</b>	<b>60,943</b>	<b>6,615</b>	<b>12,334</b>	<b>151,364</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$479,973</b>	<b>\$67,723</b>	<b>\$60,398</b>	<b>\$27,818</b>	<b>\$635,912</b>

*See Accompanying Notes to the Basic Financial Statements*

**Hancock County Educational Service Center**  
 Reconciliation of Total Governmental Fund Balances  
 to Net Assets of Governmental Activities  
 June 30, 2001

Total Governmental Fund Balances	\$151,364
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, are not reported in the funds.	92,661
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds: Intergovernmental Receivable	31,183
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds: Compensated Absences Payable	<u>(128,527)</u>
Net Assets of Governmental Activities	<u><u>\$146,681</u></u>

*See Accompanying Notes to the Basic Financial Statements*

**Hancock County Educational Service Center**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2001

	General	Alternative School	Title VI-B	Other Governmental	Total Governmental Funds
<u>Revenues:</u>					
Intergovernmental	\$1,345,900	\$148,126	\$317,651	\$191,957	\$2,003,634
Interest	45,618				45,618
Tuition and Fees	28,709				28,709
Customer Services	1,390,686				1,390,686
Gifts and Donations	27,412				27,412
Miscellaneous	9,976	2,650			12,626
Total Revenues	<u>2,848,301</u>	<u>150,776</u>	<u>317,651</u>	<u>191,957</u>	<u>3,508,685</u>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	139,203	139,279		68,012	346,494
Special	664,052				664,052
Support Services:					
Pupils	585,732			10,980	596,712
Instructional Staff	1,009,065	2,816		30,008	1,041,889
Board of Education	12,944				12,944
Administration	190,868			2,500	193,368
Fiscal	117,136	11,250			128,386
Business	7,129				7,129
Operation and Maintenance of Plant	11,128	233			11,361
Pupil Transportation	1,724				1,724
Central	536				536
Non-Instructional Services		6,255		81,329	87,584
Intergovernmental			292,467	28,127	320,594
Debt Service:					
Principal Retirement	5,969				5,969
Interest and Fiscal Charges	501				501
Total Expenditures	<u>2,745,987</u>	<u>159,833</u>	<u>292,467</u>	<u>220,956</u>	<u>3,419,243</u>
Excess of Revenues Over (Under) Expenditures	102,314	(9,057)	25,184	(28,999)	89,442
<u>Other Financing Sources:</u>					
Proceeds from Sale of Capital Assets	15,443				15,443
Net Change in Fund Balances	117,757	(9,057)	25,184	(28,999)	104,885
Fund Balances (Deficit) at Beginning of Year (Restated - Note 3)	(46,285)	70,000	(18,569)	41,333	46,479
Fund Balances at End of Year	<u>\$71,472</u>	<u>\$60,943</u>	<u>\$6,615</u>	<u>\$12,334</u>	<u>\$151,364</u>

See Accompanying Notes to the Basic Financial Statements

**Hancock County Educational Service Center**  
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
 of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2001

Net Change in Fund Balances - Total Governmental Funds \$104,885

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

Governmental funds report capital outlays 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 depreciation exceeded capital outlays in the current year:

Capital Assets	29,649	
Depreciation	<u>(41,022)</u>	
		(11,373)

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities.

Proceeds from Sale of Capital Assets	(15,443)	
Loss on Disposal of Capital Assets	<u>(18,803)</u>	
		(34,246)

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

Intergovernmental		26,044
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Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of activities.

5,969

Some expenses reported on the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds:

Compensated Absences Payable		<u>(20,597)</u>
------------------------------	--	-----------------

Change in Net Assets of Governmental Activities		<u><u>\$70,682</u></u>
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*See Accompanying Notes to the Basic Financial Statements*

**Hancock County Educational Service Center**  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2001

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$1,226,009	\$1,329,665	\$1,342,315	\$12,650
Interest	35,000	45,666	45,666	
Tuition and Fees	60,450	28,593	28,709	116
Customer Services	1,265,873	1,389,335	1,389,335	
Gifts and Donations	29,766	27,527	27,412	(115)
Miscellaneous	50	439	439	
Total Revenues	2,617,148	2,821,225	2,833,876	12,651
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	151,807	188,168	149,991	38,177
Special	639,280	657,995	653,260	4,735
Support Services:				
Pupils	649,253	649,253	578,148	71,105
Instructional Staff	1,057,107	1,057,106	1,001,336	55,770
Board of Education	16,420	18,920	12,841	6,079
Administration	190,049	199,787	191,630	8,157
Fiscal	128,776	128,776	123,134	5,642
Business	6,000	8,000	7,129	871
Operation and Maintenance of Plant	15,675	15,675	10,507	5,168
Pupil Transportation	1,500	2,500	1,724	776
Central	2,250	8,000	266	7,734
Capital Outlay		17,000	12,790	4,210
Debt Service:				
Principal Retirement		5,969	5,969	
Interest and Fiscal Charges		501	501	
Total Expenditures	2,858,117	2,957,650	2,749,226	208,424
Excess of Revenues Over (Under) Expenditures	(240,969)	(136,425)	84,650	221,075
<u>Other Financing Sources:</u>				
Refund of Prior Year Expenditures	3,000	7,499	7,499	
Proceeds from Sale of Capital Assets		10,698	15,443	4,745
Total Other Financing Sources	3,000	18,197	22,942	4,745
Net Change in Fund Balance	(237,969)	(118,228)	107,592	225,820
Fund Balance at Beginning of Year	244,340	244,340	244,340	
Prior Year Encumbrances Appropriated	10,598	10,598	10,598	
Fund Balance at End of Year	\$16,969	\$136,710	\$362,530	\$225,820

See Accompanying Notes to the Basic Financial Statements

**Hancock County Educational Service Center**  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
Alternative School Special Revenue Fund  
For the Fiscal Year Ended June 30, 2001

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$70,000	\$148,126	\$148,126	
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	189,179	189,179	140,294	\$48,885
Support Services:				
Instructional Staff	2,816	2,816	2,816	
Fiscal	11,250	11,250	11,250	
Operation and Maintenance of Plant	5,250	5,250	233	5,017
Central	250	250		250
Non-Instructional Services	6,255	6,255	6,255	
Total Expenditures	215,000	215,000	160,848	54,152
Excess of Revenues Under Expenditures	(145,000)	(66,874)	(12,722)	54,152
<u>Other Financing Sources:</u>				
Other Financing Sources		2,650	2,650	
Net Change in Fund Balance	(145,000)	(64,224)	(10,072)	54,152
Fund Balance at Beginning of Year	70,000	70,000	70,000	
Fund Balance (Deficit) at End of Year	(\$75,000)	\$5,776	\$59,928	\$54,152

*See Accompanying Notes to the Basic Financial Statements*

**Hancock County Educational Service Center**  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
Title VI-B Special Revenue Fund  
For the Fiscal Year Ended June 30, 2001

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$328,133	\$294,576	\$294,576	
<u>Expenditures:</u>				
Current:				
Instruction:				
Special	34,288	50,917	34,654	\$16,263
Support Services:				
Pupils	236,793	157,213	141,192	16,021
Instructional Staff		83,244	63,992	19,252
Administration	56,052	57,902	50,160	7,742
Fiscal	1,000	1,000	1,000	
Total Expenditures	<u>328,133</u>	<u>350,276</u>	<u>290,998</u>	<u>59,278</u>
Excess of Revenues Over (Under) Expenditures		(55,700)	3,578	59,278
Fund Balance at Beginning of Year	<u>22,143</u>	<u>22,143</u>	<u>22,143</u>	
Fund Balance (Deficit) at End of Year	<u>\$22,143</u>	<u>(\$33,557)</u>	<u>\$25,721</u>	<u>\$59,278</u>

*See Accompanying Notes to the Basic Financial Statements*

**Hancock County Educational Service Center**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2001

	Investment Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$529,075	\$146,729
<u>Liabilities:</u>		
Undistributed Assets		141,800
Due to Students		4,929
Total Liabilities		\$146,729
<u>Net Assets:</u>		
Held in Trust for External Pool Participants	\$529,075	

*See Accompanying Notes to the Basic Financial Statements*

**Hancock County Educational Service Center**  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2001

	Investment Trust
<u>Additions:</u>	
Interest	\$20,975
Capital Transactions	48,689
Total Additions	69,664
 <u>Deductions:</u>	
Distributions to Participants	20,975
Change in Net Assets	48,689
Net Assets at Beginning of Year	480,386
Net Assets at End of Year	\$529,075

*See Accompanying Notes to the Basic Financial Statements*

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**Hancock County Educational Service Center**  
Basic Financial Statements  
For the Fiscal Year Ended June 30, 2001

**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 leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Hancock County Educational Service Center operates under a locally-elected Governing Board consisting of five members elected at-large for staggered four year terms. The Educational Service Center has two administrators, thirty-nine classified employees, and forty-nine certified teaching personnel that provide services to 11,492 students from the local and city school districts.

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

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

The Educational Service Center is associated with three jointly governed organizations and two insurance pools. These organizations are the Millstream Cooperative Vocational Career Center, Hancock County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., NOACSC Workers' Compensation Group Rating Plan, and the Hancock County Schools Health Benefit Fund and Trust. Information about these organizations is presented in Notes 17 and 18 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.

**Hancock County Educational Service Center**  
Basic Financial Statements  
For the Fiscal Year Ended June 30, 2001

**A. Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide 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, except for fiduciary funds.

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 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 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. 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; governmental and fiduciary.

Governmental Funds

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

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 general laws of Ohio.

**Hancock County Educational Service Center**  
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For the Fiscal Year Ended June 30, 2001

Alternative School Special Revenue Fund - The Alternative School special revenue fund is used to account for alternative educational programs for existing and new at-risk and delinquent youth. Programs are focused on youth in one or more of the following categories: those who have been expelled or suspended, those who have dropped out of school or who are at risk of dropping out of school, those who are habitually truant or disruptive, or those on probation or on parole from the Department of Youth Services' facility.

Title VI-B Special Revenue Fund - The Title VI-B special revenue fund is used to account for federal funds provided to assist schools in the identification of handicapped children and the provision of full education opportunities to them.

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

#### Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center's only trust fund is an investment trust fund which accounts for the activity of the external investment pool, Regional Planning Development Center of Northwest Ohio. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

### **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.

#### Fund Financial Statements

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

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

**Hancock County Educational Service Center**  
Basic Financial Statements  
For the Fiscal Year Ended June 30, 2001

**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. 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 has been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

Expenses/Expenditures

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

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

**Hancock County Educational Service Center**  
Basic Financial Statements  
For the Fiscal Year Ended June 30, 2001

**E. Budgetary Process**

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

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

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

**F. Cash and Investments**

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. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2001, 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, 2001.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2001 was \$45,618, which includes \$34,468 assigned from other Educational Service Center funds.

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2001, 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 which services are consumed.

**Hancock County Educational Service Center**  
 Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2001

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market value on the date donated. The Educational Service Center maintains a capitalization threshold of 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:

Description	Useful Lives
Buildings	5 years
Furniture, Fixtures, and Equipment	5 years
Vehicles	5 years

**I. Interfund Assets/Liabilities**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the government-wide statement of net assets.

**J. 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.

The entire compensated absences liability is reported on the government-wide financial statements.

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

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

**Hancock County Educational Service Center**  
Basic Financial Statements  
For the Fiscal Year Ended June 30, 2001

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, 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.

**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 balance of any borrowing 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.

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.

**M. 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.

**N. Interfund Transactions**

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

**O. 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 types of transactions occurred during the fiscal year.

**P. 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 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY**

**A. Change in Accounting Principles**

For fiscal year 2001, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions"; GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for

**Hancock County Educational Service Center**  
 Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2001

State and Local Governments”; GASB Statement No. 36, “Recipient Reporting for Certain Shared Nonexchange Revenues”; GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus”; Statement No. 38, “Certain Financial Statement Note Disclosures”; and Interpretation No. 6, “Recognition and Measurement Focus of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”.

GASB Statements No. 33 and 36 establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis, the criteria established for accrual basis revenue recognition must be met and the revenues must be available.

GASB Statement No. 34 creates new basic financial statements for reporting on the Educational Service Center’s financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in total in a single column. Fiduciary funds are reported by type.

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2000, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and several provisions of GASB Statement No. 34, including the Management’s Discussion and Analysis, and GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

For fiscal year 2001, the Educational Service Center has increased the threshold amount for capitalizing fixed assets. The threshold amount was increased from \$200 to \$750. This change was not considered significant.

**B. Restatement of Fund Equity**

The restatement due to the implementation of the above statements and interpretation had the following effect on fund equity of the major and nonmajor funds of the Educational Service Center as they were previously reported.

The restatement from governmental fund balance to net assets of governmental activities:

	General	Alternative School	Title VI-B	Other Governmental	Total Governmental Activities
Fund Balance June 30, 2000	(\$81,185)	\$70,000	(\$23,718)	\$37,101	\$2,198
GASB Statement No. 33/36 Adjustment:					
Intergovernmental Receivable	6,019			2,597	8,616
Interpretation No. 6 Adjustment					
Compensated Absences	32,189		5,149		37,338
Correction of Error				1,635	1,635
Consumable Inventory	(3,308)				(3,308)
Adjusted Fund Balance	<u>(\$46,285)</u>	<u>\$70,000</u>	<u>(\$18,569)</u>	<u>\$41,333</u>	<u>46,479</u>

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 Basic Financial Statements  
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GASB Statement No. 34 Adjustment:

Intergovernmental Receivable Deferred on Fund Level	5,139
Capital Assets	138,280
Notes Payable	(5,969)
Compensated Absences Payable	(107,930)
Governmental Activities Net Assets at June 30, 2000	\$75,999

**NOTE 4 - ACCOUNTABILITY**

At June 30, 2001, the Early Childhood Preschool and Early Intervention special revenue funds had deficit fund balances of \$45 and \$13,405, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund, and the Alternative School and Title VI-B special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

	Net Change in Fund Balance		
	General	Alternative School	Title VI-B
GAAP Basis	\$117,757	(\$9,057)	\$25,184
<u>Increase (Decrease) Due to:</u>			
Revenue Accruals:			
Accrued FY 2000, Received in Cash FY 2001	60,352		
Accrued FY 2001, Not Yet Received in Cash	(66,368)		(23,075)
Expenditure Accruals:			
Accrued FY 2000, Paid in Cash FY 2001	(375,807)		(41,123)
Accrued FY 2001, Not Yet Paid in Cash	387,800	6,780	43,301

**Hancock County Educational Service Center**  
 Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2001

	General	Alternative School	Title VI-B
Cash Adjustments:			
Unrecorded Activity FY 2001	(910)		
Prepaid Items	439		(709)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(15,671)	(7,795)	
Budget Basis	\$107,592	(\$10,072)	\$3,578

**NOTE 6 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the Educational Service Center into three categories.

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

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4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$255,467 and the bank balance was \$528,937. Of the bank balance, \$100,000 was covered by federal depository insurance and \$428,937 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

The Educational Service Center's investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2001, the fair value of funds on deposit with STAR Ohio was \$917,077.

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$1,172,544	
Star Ohio	(917,077)	\$917,077
GASB Statement No. 3	\$255,467	\$917,077

**Hancock County Educational Service Center**  
 Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2001

**NOTE 7 - INVESTMENT POOL**

The Educational Service Center serves as fiscal agent for the Regional Planning Development Center of Northwest Ohio, a legally separate entity. The Educational Service Center pools the monies of this entity with the Educational Service Center's for investment purposes. The Educational Service Center cannot allocate its investments between the internal and external investment pools. The investment pool is not registered with the Securities Exchange Commission as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The carrying amounts and fair value for both the internal and external portion of the investment pool are disclosed in Note 6 - Deposits and Investments. Condensed financial information for the investment pool follows:

Statement of Net Assets  
 June 30, 2001

<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,172,544
 <u>Net Assets Held in Trust for Pool Participants:</u>	
Internal Portion	\$643,469
External Portion	529,075
Total Net Assets Held in Trust for Pool Participants	\$1,172,544

Statement of Changes in Net Assets  
 For the Fiscal Year Ended June 30, 2001

<u>Revenues:</u>	
Interest	\$66,593
<u>Expenses:</u>	
Operating Expenses	(66,593)
Net Increase in Assets Resulting from Operations	66,593
Distributions to Participants	(66,641)
Capital Transactions	149,935
Total Increase in Net Assets	149,887
Net Assets Beginning of Year	1,022,657
Net Assets End of Year	\$1,172,544

**NOTE 8 - 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.

**Hancock County Educational Service Center**  
 Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2001

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

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

**NOTE 9 - RECEIVABLES**

Receivables at June 30, 2001, consisted of accounts, interfund, and intergovernmental receivables. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amount
<u>Governmental Activities</u>	
General Fund	\$84,108
Title VI-B Special Revenue Fund	33,557
Total Intergovernmental Receivables	\$117,665

**NOTE 10 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2001, was as follows:

	Balance at 6/30/00	Additions	Reductions	Balance at 6/30/01
<u>Governmental Activities</u>				
Depreciable Capital Assets				
Buildings	\$36,837			\$36,837
Furniture, Fixtures, and Equipment	185,370	\$29,649		215,019
Vehicles	48,530		(\$48,530)	
Total Depreciable Capital Assets	270,737	29,649	(48,530)	251,856
Less Accumulated Depreciation				
Buildings	(11,664)	(7,368)		(19,032)
Furniture, Fixtures, and Equipment	(106,509)	(33,654)		(140,163)
Vehicles	(14,284)		14,284	
Total Accumulated Depreciation	(132,457)	(41,022)	14,284	(159,195)
Depreciable Capital Assets, Net	\$138,280	(\$11,373)	(\$34,246)	\$92,661

**Hancock County Educational Service Center**  
 Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2001

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$2,697
Special	12,729
Support Services:	
Pupils	6,202
Instructional Staff	6,866
Administration	11,349
Fiscal	1,179
Total Depreciation Expense	\$41,022

**NOTE 11 - INTERFUND ASSETS/LIABILITIES**

At June 30, 2001, the General Fund had an interfund receivable and the Early Intervention special revenue fund had an interfund payable, in the amount of \$3,633, which resulted from a short-term loan from the General Fund.

**NOTE 12 - 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 2001, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by State Automobile Mutual Company:	
Commercial Property Contents - replacement cost (\$250 deductible)	\$180,528
Inland Marine Coverage (\$250 deductible)	135,889
Comprehensive General Liability	
Per Occurrence	1,000,000
Total Per Year	2,000,000
Business Auto	1,000,000
Coverage by Nationwide Insurance Company:	
General Liability	
Per Occurrence	1,000,000
Total Per Year	3,000,000
Fire Damage	100,000
Medical Expense	5,000

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.

**Hancock County Educational Service Center**

Basic Financial Statements

For the Fiscal Year Ended June 30, 2001

For fiscal year 2001, the Educational Service Center participated in the NOACSC Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of Acordia Workers' Compensation Services provides administrative, cost control, and actuarial services to the Plan. Each year, the Educational Service Center pays an enrollment fee to the Plan to cover the costs of administering the program.

The Educational Service Center participates in the Hancock County Schools Health Benefit Fund and Trust (the Trust), 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 Trust for employee medical, dental, vision, and life insurance benefits. The Trust is responsible for the management and operation of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**NOTE 13 - DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 6 percent was the portion used to fund pension obligations. 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. The Educational Service Center's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999, were \$165,211, \$99,333, and \$94,408, respectively; 4 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$159,026, is recorded as a liability.

**B. School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

**Hancock County Educational Service Center**  
Basic Financial Statements  
For the Fiscal Year Ended June 30, 2001

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 4.2 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 5.5 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999, were \$25,114, \$33,321, and \$35,569, respectively; 91 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$2,268, is recorded as a liability.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2001, three members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$78,258.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,419 million at June 30, 2000 (the latest information available). For the fiscal year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000, and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 2001, the minimum pay was established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$58,599 for fiscal year 2001.

**Hancock County Educational Service Center**  
 Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2001

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340, and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**NOTE 15 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements 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 employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, 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 employee's 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 and Trust. Depending upon the plan chosen, the employees share the cost of monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

**NOTE 16 - LONG-TERM OBLIGATIONS**

Changes in the Educational Service Center's long-term obligations during fiscal year 2001 were as follows:

	<u>Balance at 6/30/00</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/01</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Loan	\$5,969		\$5,969		
Compensated Absences	<u>107,930</u>	<u>\$20,597</u>		<u>\$128,527</u>	<u>\$43,616</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$113,899</u>	<u>\$20,597</u>	<u>\$5,969</u>	<u>\$128,527</u>	<u>\$43,616</u>

Loan Payable - During fiscal year 2000, the Educational Service Center entered into a loan agreement, in the amount of \$9,135, for the acquisition of two vehicles. During the fiscal year, the Educational Service Center made principal payments of \$5,969 from the General Fund.

Compensated absences will be paid from the General Fund.

**Hancock County Educational Service Center**  
Basic Financial Statements  
For the Fiscal Year Ended June 30, 2001

**NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Millstream Cooperative Vocational Career Center**

The Millstream Cooperative Vocational Career Center is a distinct political subdivision of the State of Ohio established under Section 3313.90. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative from the Findlay City School District. The Treasurers from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, Pam Barber, who serves as treasurer, 227 South West Street, Findlay, Ohio 45840-3377.

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

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

**C. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**NOTE 18 - INSURANCE POOLS**

**A. NOACSC Workers' Compensation Group Rating Plan**

The Educational Service Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The NOACSC Workers' Compensation Group Rating Plan (the Plan) was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as an insurance purchasing pool.

The Safety Coordinator, Robert Lotz, of NOACSC, or his designee, serves as coordinator of the Plan. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.

**Hancock County Educational Service Center**  
Basic Financial Statements  
For the Fiscal Year Ended June 30, 2001

**B. Hancock County Schools Health Benefit Fund and Trust**

The Hancock County Schools Health Benefit Fund and Trust (the Trust) 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 Trust 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 Trust consists of the superintendent from each participating member. The Administrative Committee advises the trustee, Sky Bank, concerning aspects of the administration of the Trust.

Each member decides which plans offered by the Administrative Committee that will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Tim Smith, Ohio Benefits Group, 545 Pearl Street, Bowling Green, Ohio 43402.

**NOTE 19 - 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, 2001.

**B. Litigation**

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

**NOTE 20 - STATE SCHOOL FUNDING DECISION**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution was not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision will result in an increase in State funding for most Ohio school districts. However, as of March 27, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

**Hancock County Educational Service Center**  
Basic Financial Statements  
For the Fiscal Year Ended June 30, 2001

On November 2, 2001, the Supreme Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

**Hancock County Educational Service Center**  
Schedule of Federal Awards Receipts and Expenditures  
For the Year Ended June 30, 2001

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disburse- ments
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
<i>Passed Through Ohio Department of Education:</i>				
National School Lunch Program	LL-P1-2000	10.555	\$104	\$104
	LL-P4-2000		39	39
	LL-P1-2001		2,404	2,404
	LL-P4-2001		579	579
Total National School Lunch Program			<u>3,126</u>	<u>3,126</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education:</i>				
<b><u>Special Education Cluster</u></b>				
Special Education Grants to States	6B-SF-2000P	84.027		22,143
	6B-SF-2001P		294,576	268,855
Total Special Education Grants to States			<u>294,576</u>	<u>290,998</u>
Special Education - Preschool Grant	PG-SI-2000P	84.173		2,139
	PG-SI-2001P		20,331	20,331
Total Special Education - Preschool Grant			<u>20,331</u>	<u>22,470</u>
Total Special Education Cluster			<u>314,907</u>	<u>313,468</u>
Safe and Drug Free Schools and Communities State Grant	DR-S1-2000	84.186		2,169
Goals 2000 - State and Local Education Systemic Improvement Grants	G2-S5-99	84.276		7,574
Eisenhower Professional Development State Grants	MS-SI-99	84.281		238
	MS-SI-2000			8,850
Total Eisenhower Professional Development State Grants				<u>9,088</u>
Total Department of Education			<u>314,907</u>	<u>332,299</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Health</i>				
Special Education - Grants for Infants and Families with Disabilities	32501FAN	84.181	19,024	21,013
	3250011A		56,051	59,684
Total Special Education - Grants for Infants and Families with Disabilities			<u>75,075</u>	<u>80,697</u>
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Community Alternative Funding	3200253	93.778	30,272	30,272
<b>Total Federal Financial Assistance</b>			<u><u>\$423,380</u></u>	<u><u>\$446,394</u></u>

*The accompanying notes are an integral part of this schedule.*

**Hancock County Educational Service Center**  
Notes to the Schedule of Federal Awards Receipts and Expenditures  
For the Fiscal Year Ended June 30, 2001

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - OTHER FEDERAL ASSISTANCE**

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



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

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

Educational Service Center  
Hancock County  
7746 County Road 140, Suite 1  
Findlay, Ohio 45840-1792

To the Governing Board:

We have audited the financial statements of the Hancock County Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 2001, and have issued our report thereon dated March 27, 2002, in which we disclosed the Educational Service Center implemented Governmental Accounting Standards Board statements 33, 34 and Interpretation No. 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instances of noncompliance that we have reported to management of the Educational Service Center in a separate letter dated March 27, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Educational Service Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2001-10232-001.

A material weakness is a condition in which the design or operation of one of or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted another matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated March 27, 2002.

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

**Jim Petro**  
Auditor of State

March 27, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

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

Educational Service Center  
Hancock County  
7746 County Road 140, Suite 1  
Findlay, Ohio 45840-1792

To the Governing Board:

**Compliance**

We have audited the compliance of the Hancock County Educational Service Center (the Educational Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2001. The Educational Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

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

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2001.

**Internal Control Over Compliance**

The management of the Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Educational Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

**Jim Petro**  
Auditor of State

March 27, 2002

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2001**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

**Finding Number 2001-10232-001**

**Reportable Condition - Confirmation of Receipt of Goods/Services**

Fifty-seven percent of the expenditures tested did not include documentation that the Educational Service Center personnel receiving the goods and/or service verified the receipt of goods or services. This weakness limits the Educational Service Center's control over disbursements, could allow payments to be made for goods and services not received, and increases the possibility of errors or irregularities occurring and not being detected in the normal course of operations. We recommend no payments be made until receipt of the goods and/or service has been verified.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

HANCOCK COUNTY EDUCATIONAL SERVICE CENTER

SCHEDULE OF PRIOR AUDIT FINDINGS

OMB CIRCULAR A -133 § .315 (b)

JUNE 30, 2001

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2000-10232-001 and 2000-10232-002	Reportable conditions for documentation of receipt of goods/ services prior to payment of invoices	No	The non-federal portion of the finding has been repeated in this report as item 2001-10232-001. The federal portion of the finding has not been repeated.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**EDUCATIONAL SERVICE CENTER**

**HANCOCK COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 9, 2002**