

**Hamilton County  
Educational Service Center**

Basic Financial Statements  
Year Ended June 30, 2008  
with Independent Auditors' Report





# Mary Taylor, CPA

Auditor of State

Board of Education  
Hamilton County Educational Service Center  
11083 Hamilton Ave  
Cincinnati, Ohio 45231

We have reviewed the *Independent Auditors' Report* of the Hamilton County Educational Service Center, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

January 21, 2009

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Education  
Hamilton County Educational Service Center:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County Educational Service Center (the "Service Center") as of and for the year ended June 30, 2008, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on the financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of the Hamilton County Educational Service Center as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008 on our consideration of the Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 41 through 44, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Service Center's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose 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 of the Service Center. 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.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
December 18, 2008



**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008  
(Unaudited)**

The discussion and analysis of Hamilton County Educational Service Center's (Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center's performance.

**Financial Highlights**

Key financial highlights for 2008 are as follows:

- Net assets of governmental activities increased \$4,823,124 which represents a 108.4% increase from 2007.
- General revenues accounted for \$4,450,738 in revenue or 8.8% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$46,385,330 or 91.2% of total revenues of \$50,836,068 .
- The Center had \$46,012,944 in expenses related to governmental activities; \$46,385,330 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$4,450,738 were also used to provide for these programs.

**OVERVIEW OF THE 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 the Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

**Government-wide Financial Statements**

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The Government-wide Financial Statements answers this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial.

In the Government-wide Financial Statements, the Center presents:

- **Governmental Activities** – Most of the Center's programs and services are reported here including instruction, support services, operation of non-instructional services, and interest and fiscal charges.

### **Fund Financial Statements**

The analysis of the Center's major funds begin on the balance sheet. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

***Governmental Funds*** All of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

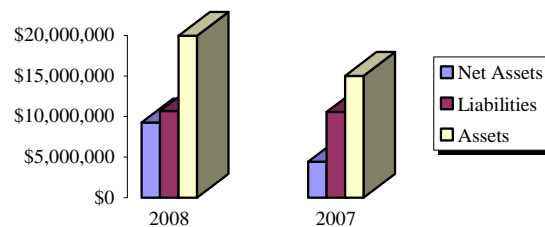
***Fiduciary Funds*** Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Center's own programs.

## The Center as a Whole

As stated previously, the Statement of Net Assets looks at the Center as a whole. Table 1 provides a summary of the Center's net assets for 2008 compared to 2007:

Table 1  
Net Assets

	Governmental Activities	
	2008	2007
Assets:		
Current and Other Assets	\$16,779,297	\$11,787,572
Capital Assets	3,202,121	3,231,841
Total Assets	19,981,418	15,019,413
Liabilities:		
Other Liabilities	5,102,183	4,739,488
Long-Term Liabilities	5,605,662	5,829,476
Total Liabilities	10,707,845	10,568,964
Net Assets:		
Invested in Capital Assets, Net of Related Debt	898,121	890,841
Restricted	6,176,340	2,752,979
Unrestricted	2,199,112	806,629
Total Net Assets	\$9,273,573	\$4,450,449



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the Center's assets exceeded liabilities by \$9,273,573 .

At year-end, capital assets represented 16% of total assets. Capital assets include land, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2008, was \$898,121 . These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net assets, \$6,176,340 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and other assets increased from 2007 mainly due to the increase in intergovernmental receivables due at year end. Other liabilities increased at year end when compared to 2007 mainly due to the increase in the amount of accounts payable due at year end, while long-term liabilities decreased due to the Center making regularly scheduled debt payments.

Table 2 shows the changes in net assets for fiscal years 2008 and 2007.

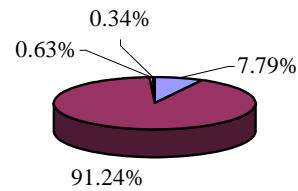
Table 2  
Changes in Net Assets

	Governmental Activities	
	2008	2007
Revenues:		
Program Revenues		
Charges for Services	\$27,721,543	\$27,143,020
Operating Grants, Contributions	18,663,787	19,525,507
General Revenues:		
Grants and Entitlements	3,953,865	4,232,461
Other	496,873	515,985
Total Revenues	<u>50,836,068</u>	<u>51,416,973</u>
Program Expenses:		
Instruction	8,502,985	9,245,361
Support Services:		
Pupil and Instructional Staff	16,481,605	15,294,298
School Administrative, General		
Administration, Fiscal and Business	4,705,093	8,120,598
Operations and Maintenance	567,682	625,566
Central	751,672	367,990
Operation of Non-Instructional Services	14,893,951	15,732,733
Interest and Fiscal Charges	109,956	56,382
Total Program Expenses	<u>46,012,944</u>	<u>49,442,928</u>
Change in Net Assets	4,823,124	1,974,045
Net Assets Beginning of Year	<u>4,450,449</u>	<u>2,476,404</u>
Net Assets End of Year	<u><u>\$9,273,573</u></u>	<u><u>\$4,450,449</u></u>

The Center revenues are mainly from two sources, fee for service and state foundation. Fee for service revenues are generated by providing services to districts. The Center and a district enter an agreement specifying the type and amount of service for a period of time, generally not exceeding a school year. State foundation revenues are given directly to the Center and are calculated based on the ADM of the districts.

The Center's revenues are demonstrated by the following graph:

Revenue Sources	2008	Percent of Total
General Grants	\$3,953,865	7.79%
Program Revenues	46,385,330	91.24%
Investment Earnings	321,722	0.63%
Other Revenues	175,151	0.34%
	<u>\$50,836,068</u>	<u>100.00%</u>



Instruction comprises 18.5% of governmental program expenses. Support services expenses were 48.9% of governmental program expenses. All other expenses including interest expense were 32.6%. Interest expense was attributable to the outstanding capital lease and borrowing for capital projects.

Operating Grants decreased mainly due to the decrease in grant monies (intergovernmental revenues) that were received by the Center in 2008 compared to 2007. Total expenses for the current fiscal year decreased due to the Center's continuing effort to decrease expenses, while maintaining all services to area school districts.

### Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$8,502,985	\$9,245,361	(\$481,246)	(\$707,663)
Support Services:				
Pupil and Instructional Staff	16,481,605	15,294,298	(1,241,806)	(2,018,743)
School Administrative, General				
Administration, Fiscal and Business	4,705,093	8,120,598	907,153	1,208,144
Operations and Maintenance	567,682	625,566	(20,483)	(460,772)
Central	751,672	367,990	38,893	157,499
Operation of Non-Instructional Services	14,893,951	15,732,733	1,279,831	(896,484)
Interest and Fiscal Charges	109,956	56,382	(109,956)	(56,382)
Total Expenses	<u>\$46,012,944</u>	<u>\$49,442,928</u>	<u>\$372,386</u>	<u>(\$2,774,401)</u>

### The Center's Major Funds

The Center has two major governmental funds: the General Fund and Miscellaneous Federal Grants. Assets of the General Fund comprised \$7,590,956 (41%) and Miscellaneous Federal Grants Fund comprised \$4,601,512 (25%) of the total \$18,380,570 governmental fund assets.

**General Fund:** Fund balance at June 30, 2008 was \$3,213,853, including \$3,174,481 of unreserved balance. Fund balance increased \$1,372,136 from 2007. Total revenues remained consistent from 2007 to 2008, while total expenses decreased 8.4%.

**Miscellaneous Federal Grants Fund:** Fund balance at June 30, 2008 was \$1,056,427. The fund balance increased \$581,993 from 2007 to 2008 and had an unreserved balance of \$829,763.

**General Fund Budgeting Highlights**

The Center’s budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

The Center uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the Center revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget final basis revenue was \$31,960,407, compared to the original budget estimates of \$33,132,427. Of the \$1,172,020 difference, most was due to overestimates for contract services and intergovernmental revenues for fiscal year 2008.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2008, the Center had \$3,202,121 invested in land, buildings and improvements and equipment. Table 4 shows fiscal 2007 balances compared to 2008:

Table 4  
Capital Assets at June 30  
(Net of Depreciation)

	Governmental Activities	
	2008	2007
Land	\$1,398,750	\$1,398,750
Buildings and Improvements	883,322	910,048
Equipment	920,049	923,043
Total Net Capital Assets	<u>\$3,202,121</u>	<u>\$3,231,841</u>

Overall, capital assets decreased due to depreciation expense being greater than fiscal year 2008 purchases.

See Note 5 to the Basic Financial Statements for further details on the Center’s capital assets.

## **Debt**

At June 30, 2008, the Center had \$2,304,000 in debt outstanding, \$39,000 due within one year.

Table 5 summarizes debt outstanding.

	Governmental Activities	
	2008	2007
HCESC Building Capital Lease	\$2,304,000	\$2,341,000

See Note 6 to the Basic Financial Statements for further details in the Center's long-term liabilities.

## **For the Future**

As the preceding shows, the Center relies heavily on contracts with local, city, and exempted village school districts in Hamilton County, state foundation revenue and grants. Contracts with Hamilton County districts are expected to increase in fiscal year 2009 due to additional service requests from districts. These contracts, along with the Center's cash balance will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2009.

As of the time of this report, the Ohio Department of Education is researching a model for a regional delivery system and the implementation of such a system. This new Ohio Regional Delivery System will directly affect the Center's and the method to which they are funded. At this point, the Center is unable to determine what effect this legislation will have on future state funding and on its financial operations.

In May 2000, the Ohio Supreme Court again ruled the school funding system in Ohio is far too dependent on property taxes which are inherently not "equitable" nor "adequate." The court directed the Governor and the legislature to address the fundamental issues creating the inequities. Any change in the funding will indirectly affect the Center's since the districts are their main revenue stream. Currently, the Center is unable to determine the outcome of the Court's directive.

All of the Center's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality products and services to the districts in the future.

Hamilton County Educational Service Center  
Statement of Net Assets  
June 30, 2008

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$8,362,413
Receivables:	
Accounts	1,844,437
Intergovernmental	6,567,591
Inventory	4,856
Nondepreciable Capital Assets	1,398,750
Depreciable Capital Assets, Net	<u>1,803,371</u>
Total Assets	<u>19,981,418</u>
Liabilities:	
Accounts Payable	379,715
Accrued Wages and Benefits	4,713,655
Accrued Interest Payable	8,813
Long-Term Liabilities:	
Due Within One Year	84,029
Due In More Than One Year	<u>5,521,633</u>
Total Liabilities	<u>10,707,845</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	898,121
Restricted for:	
Special Revenue	6,176,340
Unrestricted	<u>2,199,112</u>
Total Net Assets	<u>\$9,273,573</u>

See accompanying notes to the basic financial statements.



Hamilton County Educational Service Center  
Statement of Activities  
For the Fiscal Year Ended June 30, 2008

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Special	\$8,320,345	\$7,331,977	\$507,205	(\$481,163)
Vocational	182,640	176,229	6,328	(83)
Support Services:				
Pupil	7,990,270	6,793,259	542,965	(654,046)
Instructional Staff	8,491,335	3,507,714	4,395,861	(587,760)
General Administration	148,706	24,936	617	(123,153)
School Administration	2,972,473	1,853,388	2,190,619	1,071,534
Fiscal	1,138,908	624,674	503,419	(10,815)
Business	445,006	410,393	4,200	(30,413)
Operations and Maintenance	567,682	361,145	186,054	(20,483)
Central	751,672	658,176	132,389	38,893
Operation of Non-Instructional Services	14,893,951	5,979,652	10,194,130	1,279,831
Interest and Fiscal Charges	109,956	0	0	(109,956)
Total Governmental Activities	<u>\$46,012,944</u>	<u>\$27,721,543</u>	<u>\$18,663,787</u>	<u>372,386</u>

General Revenues:	
Grants and Entitlements not Restricted to Specific Programs	3,953,865
Investment Earnings	321,722
Other Revenues	<u>175,151</u>
Total General Revenues	<u>4,450,738</u>
Change in Net Assets	4,823,124
Net Assets Beginning of Year	<u>4,450,449</u>
Net Assets End of Year	<u><u>\$9,273,573</u></u>

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center  
Balance Sheet  
Governmental Funds  
June 30, 2008

	General	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Investments	\$4,140,390	\$693,549	\$3,528,474	\$8,362,413
<b>Receivables:</b>				
Accounts	1,844,437	0	0	1,844,437
Intergovernmental	0	3,907,963	2,659,628	6,567,591
Interfund	1,601,273	0	0	1,601,273
Inventory	4,856	0	0	4,856
<b>Total Assets</b>	<b>7,590,956</b>	<b>4,601,512</b>	<b>6,188,102</b>	<b>18,380,570</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts Payable	86,365	186,869	106,481	379,715
Accrued Wages and Benefits	4,182,097	104,030	427,528	4,713,655
Interfund Payable	0	106,717	1,494,556	1,601,273
Deferred Revenue	108,641	3,147,469	1,014,625	4,270,735
<b>Total Liabilities</b>	<b>4,377,103</b>	<b>3,545,085</b>	<b>3,043,190</b>	<b>10,965,378</b>
<b>Fund Balances:</b>				
Reserved for Encumbrances	34,516	226,664	1,215,182	1,476,362
Reserved for Inventory	4,856	0	0	4,856
<b>Unreserved, Undesignated, Reported in:</b>				
General Fund	3,174,481	0	0	3,174,481
Special Revenue Funds	0	829,763	1,129,730	1,959,493
Capital Projects Funds	0	0	800,000	800,000
<b>Total Fund Balances</b>	<b>3,213,853</b>	<b>1,056,427</b>	<b>3,144,912</b>	<b>7,415,192</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$7,590,956</b>	<b>\$4,601,512</b>	<b>\$6,188,102</b>	<b>\$18,380,570</b>

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center  
 Reconciliation of Total Governmental Fund Balance to  
 Net Assets of Governmental Activities  
 June 30, 2008

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Total Governmental Fund Balance \$7,415,192

Amounts reported for governmental activities in the  
 statement of net assets are different because:

Capital assets used in governmental activities are not financial  
 resources and therefore are not reported in the funds. 3,202,121

Other long-term assets are not available to pay for current-  
 period expenditures and therefore are deferred in the funds.

Intergovernmental	4,162,094	
Other	<u>108,641</u>	
		4,270,735

In the statement of net assets interest payable is accrued when  
 incurred, whereas in the governmental funds interest is  
 reported as a liability only when it will require the use of  
 current financial resources. (8,813)

Some liabilities reported in the statement of net assets do not  
 require the use of current financial resources and therefore  
 are not reported as liabilities in governmental funds.

Compensated Absences	<u>(3,301,662)</u>	
		(3,301,662)

Long-term liabilities, are not due and payable in the current  
 period and therefore are not reported in the funds. (2,304,000)

Net Assets of Governmental Activities \$9,273,573

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center  
Statement of Revenues, Expenditures  
and Changes in Fund Balance  
Governmental Funds  
For the Fiscal Year Ended June 30, 2008

	General	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues:				
Tuition and Fees	\$1,817,320	\$0	\$0	\$1,817,320
Investment Earnings	321,721	0	0	321,721
Intergovernmental	3,953,865	4,701,406	11,534,578	20,189,849
Contract Services	26,233,169	0	0	26,233,169
Other Revenues	4,553	0	82,158	86,711
<b>Total Revenues</b>	<b>32,330,628</b>	<b>4,701,406</b>	<b>11,616,736</b>	<b>48,648,770</b>
Expenditures:				
Current:				
Instruction:				
Special	8,200,846	0	208,679	8,409,525
Vocational	203,705	0	0	203,705
Support Services:				
Pupil	7,739,440	0	140,403	7,879,843
Instructional Staff	4,066,674	0	4,185,530	8,252,204
General Administration	28,299	0	0	28,299
School Administration	1,341,663	416,761	1,490,940	3,249,364
Fiscal	706,928	117,402	315,032	1,139,362
Business	460,589	0	0	460,589
Operations and Maintenance	408,349	0	120,231	528,580
Central	740,756	49,755	11,000	801,511
Operation of Non-Instructional Services	6,714,146	3,535,495	4,834,990	15,084,631
Debt Service:				
Principal Retirement	37,000	0	0	37,000
Interest and Fiscal Charges	110,097	0	0	110,097
<b>Total Expenditures</b>	<b>30,758,492</b>	<b>4,119,413</b>	<b>11,306,805</b>	<b>46,184,710</b>
Excess of Revenues Over (Under) Expenditures	1,572,136	581,993	309,931	2,464,060
Other Financing Sources (Uses):				
Transfers In	0	0	200,000	200,000
Transfers (Out)	(200,000)	0	0	(200,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(200,000)</b>	<b>0</b>	<b>200,000</b>	<b>0</b>
Net Change in Fund Balance	1,372,136	581,993	509,931	2,464,060
Fund Balance Beginning of Year	1,841,717	474,434	2,634,981	4,951,132
Fund Balance End of Year	<u>\$3,213,853</u>	<u>\$1,056,427</u>	<u>\$3,144,912</u>	<u>\$7,415,192</u>

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes  
 in Fund Balance of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2008

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Net Change in Fund Balance - Total Governmental Funds \$2,464,060

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

Governmental funds report capital asset additions as expenditures.

However, in the statement of activities, the cost of those assets is  
 allocated over their estimated useful lives as depreciation  
 expense. This is the amount of the difference between capital  
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	251,784	
Depreciation Expense	<u>(281,504)</u>	(29,720)

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

Intergovernmental	2,427,802	
Other	<u>(240,504)</u>	2,187,298

Repayment of bond principal is an expenditure in the  
 governmental funds, but the repayment reduces long-term  
 liabilities in the statement of net assets. 37,000

In the statement of activities interest expense is accrued when incurred,  
 whereas in governmental funds an interest expenditure is reported  
 when due. 141

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

Compensated Absences	<u>164,345</u>	
		<u>164,345</u>

Change in Net Assets of Governmental Activities \$4,823,124

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center  
Statement of Assets and Liabilities  
Agency Funds  
June 30, 2008

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	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	\$2,377,526
Receivables:	
Accounts	<u>280,899</u>
Total Assets	<u><u>2,658,425</u></u>
Liabilities:	
Accounts Payable	165,232
Other Liabilities	<u>2,493,193</u>
Total Liabilities	<u><u>\$2,658,425</u></u>

See accompanying notes to the basic financial statements.

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**1. DESCRIPTION OF THE CENTER**

The Hamilton County Educational Service Center (Center) serves the territories contained within the territorial limits of the local school districts that are not otherwise classified as city or exempted village school districts in Hamilton County, Ohio. The local districts consist of Finneytown whose territories consist of Springfield Township and a portion of the City of Cincinnati; Forest Hills consisting of Anderson Township including the Village of Newtown; Northwest consisting of all or parts of Colerain, Green and Springfield Townships, and portions of the Cities of Forest Park and North College Hill, and as well, a small portion of Fairfield Township in Butler County; Oak Hills which consists of all or parts of Delhi and Green Townships and a portion of the City of Cincinnati; Southwest which consists of Crosby, Harrison and Whitewater Townships including the City of Harrison, and as well, a small portion of Morgan Township in Butler county; Three Rivers consisting of Miami Township including the Villages of Addyston, Cleves and North Bend; and, Lockland consisting of the Villages of Arlington Heights and Lockland.

The Center's Governing Board is comprised of five members who are resident electors of the County School district. At the time of election or appointment, every effort is made to broadly represent the electorate of the school system. Historically, five of the seven local districts on a rotational basis have been represented on the Board. Frequently the Board communicates with members of the local-district boards to learn of their wishes regarding development of policy, services that are consistent with trends, and program developments related to the vocational joint venture for which the five board members serve as representative delegates. The Board has consistently been a participating member of the Ohio School Boards Association to which several members provide leadership.

In addition to the seven local districts in Hamilton County, city districts, namely, Cincinnati, Deer Park, Winton Woods, Loveland, Madeira, Mariemont, Mt. Healthy, North College Hill, Norwood, Princeton, Reading Community, St. Bernard-Elmwood Place, Sycamore Community, Wyoming, Mason and the Exempted Village District of Indian Hill as well as the Great Oaks Institute of Technology and Career Development have one or another types of cooperative service agreements with the County School system.

The Office of the Board is regularly referred to as the Center which is housed in a separate, modern facility in a complex known as Civic Center North. The Center serves as the central office for the Hamilton County Educational Service Center Superintendent of Schools and his staff of approximately 614 certificated and non-certificated support employees.

## **REPORTING ENTITY**

For financial reporting purposes the Center's financial statements include all funds and account groups of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the center. Potential component units were also considered for inclusion in the financial report. Component units are legally separate organizations for which the elected officials of a primary government are financially accountable. The Center would consider an organization to be a component unit if:

1. The Center appointed a voting majority of the organization's governing body and (a) was able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial burdens on the Center; or
2. The organization was fiscally dependent upon the Center; or
3. The nature of the relationship between the Center and the organization was such that the exclusion from the financial reporting entity would render the financial statements of the Center misleading.

The Center included no component units in the financial report.

The Center provides fiscal agent service to the Hamilton/Clermont Cooperative Association (H/CCA), 7615 Harrison Avenue, Cincinnati, Ohio 45231. H/CCA is one of 24 regional Information Technology Centers (ITC) established by the state of Ohio. H/CCA is a member of the Ohio Educational Computer Network. H/CCA provides data and Internet services for public and non-public schools in Greater Cincinnati Metropolitan Area. This includes collection and distribution of data for financial, student and media services. H/CCA also provides technical and networking service to affiliate schools.

The Site Director and his staff manages the day-to-day affairs of H/CCA. A Board of Directors composed of member school's superintendents approves the long term path for the site, as determined by the Site Director and an Executive Committee composed of five superintendents and two treasurers from member schools.

The Center provides fiscal agent service to the Center for Regional Educational Services (CRES), 1301 Bonnell, Cincinnati, Ohio 45215. CRES is one of 16 regional centers serving the state of Ohio. The CRES is a separate agency that services the southwestern corner of the state, which includes Butler, Clermont, Hamilton, and Warren Counties, and the City of Cincinnati through cooperative agreements with regard to special education mandates established by the State of Ohio.



CRES is part of a federally funded project under the Ohio Department of Education Office for Exceptional Children. CRES has a Governing Board made up of superintendents of schools; special and general education personnel; parents of children with disabilities; and representatives from nonpublic and community schools, county boards of mental retardation and developmental disabilities, regional institutions, and universities in the region – ensures that regional needs are addressed. The Center is the fiscal agent for CRES for whom the superintendent and treasurer have responsibility for ensuring that the expenditure of CRES project funds is made in accordance with all applicable local, state, and federal laws and regulations.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the 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 most significant of the Center's accounting policies are described below.

### **MEASUREMENT FOCUS**

#### **Government-wide Financial Statements**

The 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.

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Center are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the 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 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 Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Center.

## **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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Fiduciary Funds are reported using the economic resources measurement focus.

## **FUND ACCOUNTING**

The Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Center are grouped into the categories governmental and fiduciary.

### **Governmental Funds**

Governmental funds focus 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 following are the Center's 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 for any purpose provided it is expended or transferred according to the general laws of Ohio.

Miscellaneous Federal Grants – The miscellaneous federal grants fund is used to account for federal funds that are legally restricted to expenditures for specified purposes.

## **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 Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's only fiduciary funds are Agency funds (data center and unified purchasing co-op) which accounts for assets and liabilities generated by the data center and the unified purchasing co-op.

## **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. Fiduciary funds also use the accrual basis of accounting. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

### Revenues – Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, included 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 year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a 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 to be both measurable and available at year end: contract services, grants and interest.

### Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

### Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. However, debt service expenditures, as well as any expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

## **EQUITY IN POOLED CASH AND INVESTMENTS**

To improve cash management, cash received by the Center is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as “Equity in Pooled Cash and Investments” on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Center has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2008 amounted to \$321,721 in the general fund.

For presentation on the financial statements, all investments and deposits are reported as “Equity in Pooled Cash and Investments”.

During the fiscal year, the Center held donated stock which is held at fair value. The fair value is based on quoted market prices.

## **INVENTORY**

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis and are expended/expensed when used. Inventory in governmental funds consists of expendable supplies held for consumption.

## **CAPITAL ASSETS**

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$2,000. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	30 - 50 years
Building Improvements	10 - 40 years
Improvements other than Buildings	10 - 20 years
Furniture, Fixtures and Equipment	5 - 20 years

## **COMPENSATED ABSENCES**

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The 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 entire compensated absence liability is reported on the government-wide financial statements.

Compensated absences are recognized in governmental fund financial statements, when they are due. The related liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

The Center's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u> (261 day employees only)	<u>Non-Certificated</u> (261 day employees only)
Earned Monthly	Not Eligible	10-20 days depending on length of contract	10-20 days for each service year depending on length of service
Maximum Accumulation	N/A	3 days paid at end of each school year at current Daily Rate	3 days paid at end of each school year at current Daily Rate
Vested	N/A	As Earned	As Earned
Term	N/A	100% of Daily Rate of Accum. Vac.	100% of Daily Rate of Accum. Vac.
<u>Sick Leave</u>			
Earned Monthly	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	250	250	250
Vested	As Earned	As Earned	As Earned
Termination Entitlement At Retirement	25% of Accum. unused sick leave max 62.5 days X current daily rate.	25% of Accum. unused sick leave max 62.5 days X current daily rate.	25% of Accum. unused sick leave max 62.5 days X current daily rate.

## **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 less outstanding debt used to acquire capital assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the Center's \$6,176,340 in restricted net assets, none were restricted by enabling legislation.

## **INTERFUND ACTIVITY**

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

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

## **FUND EQUITY**

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances and inventory. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

## **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.

### **3. EQUITY IN POOLED CASH AND INVESTMENTS**

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the Center into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the Center. Such monies must by law be maintained either as cash in the Center treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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



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

## Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2008, \$7,619,127 of the Center's bank balance of \$7,719,127 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

## Investments

As of June 30, 2008, the Center had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Stocks*	\$58,905	0.00
Money Market Funds	192,040	0.00
Federal Home Loan Mortgage	150,293	1.18
Federal Home Loan Bank	984,691	1.54
Federal Home Loan Mortgage Corporation - Discount Notes	366,757	0.29
Freddie Mac	407,757	4.85
Fannie Mae	409,132	1.96
U.S. Treasury Notes	606,094	3.67
Federal National Mortgage Association - Discount Notes	522,339	0.07
Total Fair Value	<u>\$3,698,008</u>	
Portfolio Weighted Average Maturity		1.85

\* The amount of \$58,905 was donated stock by a private individual.

Interest rate risk - In accordance with the investment policy, the Center manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the Center’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The Center’s investments in Money Market Funds, Federal Home Loan Mortgage, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation - Discount Notes, Freddie Mac, Fannie Mae and Federal National Mortgage Association - Discount Notes were rated AAA by Standard & Poor’s and Fitch Ratings and Aaa by Moody’s Investors Service. U.S. Treasury Notes are not rated.

Concentration of credit risk – The Center places no limit on the amount it may invest in any one issuer. 2% of the Center’s investments at fiscal year end were in Stock, 5% in Money Market Funds, 4% in Federal Home Loan Mortgage, 27% in Federal Home Loan Bank, 10% in Federal Home Loan Mortgage Corporation - Discount Notes, 11% in Freddie Mac, 11% in Fannie Mae, 16% in U.S. Treasury Notes and 14% in Federal National Mortgage Association - Discount Notes.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Center’s securities are either insured and registered in the name of the Center or at least registered in the name of the Center.

#### **4. RECEIVABLES**

Receivables at June 30, 2008, consisted of accounts, intergovernmental grants and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

## 5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$1,398,750	\$0	\$0	\$1,398,750
<i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	942,250	0	0	942,250
Equipment	<u>2,271,488</u>	<u>251,784</u>	<u>5,777</u>	<u>2,517,495</u>
Totals at Historical Cost	<u>4,612,488</u>	<u>251,784</u>	<u>5,777</u>	<u>4,858,495</u>
Less Accumulated Depreciation:				
Buildings and Improvements	32,202	26,726	0	58,928
Equipment	<u>1,348,445</u>	<u>254,778</u>	<u>5,777</u>	<u>1,597,446</u>
Total Accumulated Depreciation	<u>1,380,647</u>	<u>281,504</u>	<u>5,777</u>	<u>1,656,374</u>
Governmental Activities Capital Assets, Net	<u>\$3,231,841</u>	<u>(\$29,720)</u>	<u>\$0</u>	<u>\$3,202,121</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$36,058
Support Services:	
Instructional Staff	85,666
General Administration	123,481
School Administration	24,572
Business	259
Operations & Maintenance	831
Central	8,815
Operation of Non-Instructional Services	<u>1,822</u>
Total Depreciation Expense	<u>\$281,504</u>

## 6. LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
<b>Governmental Activities:</b>					
Capital Lease Payable:					
HCESC Building	\$2,341,000	\$0	\$37,000	\$2,304,000	\$39,000
Total Long-Term Debt	<u>2,341,000</u>	<u>0</u>	<u>37,000</u>	<u>2,304,000</u>	<u>39,000</u>
Compensated Absences	<u>3,488,476</u>	<u>48,234</u>	<u>235,048</u>	<u>3,301,662</u>	<u>45,029</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$5,829,476</u>	<u>\$48,234</u>	<u>\$272,048</u>	<u>\$5,605,662</u>	<u>\$84,029</u>

Compensated Absences will be paid from the fund from which the person is paid. The lease will be paid from the general fund.

## 7. CAPITAL LEASES

The capital lease proceeds were recorded in the General Fund relates to the purchase of the administrative building for the Center. The Center is leasing the building from the Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the building during the lease term. Columbus Regional Airport Authority assigned U.S. Bank National Association as trustee. U.S. Bank National Association deposited \$2,341,000 in the Center's name for the purchase of the building. The Center made an interest payment to U.S. Bank National Association. The lease is renewable annually and expires in 2036. The intention of the Center is to renew the lease annually.

In the prior fiscal year, the Center drew down all the money to purchase the building. The Center began making principal payments in fiscal year 2008. The principal amount owed on the lease at year end is \$2,304,000.

The trustee entered into an Interest Rate Exchange Agreement with respect to the loan, locking in the rate at 4.59% plus an annual administrative fee. The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2008.

Fiscal Year Ending June 30,	Long-Term Debt
2009	\$148,220
2010	148,372
2011	148,428
2012	148,390
2013	148,256
2014-2018	739,822
2019-2023	737,042
2024-2028	738,344
2029-2033	737,653
2034-2037	587,520
Total Minimum Lease Payments	4,282,047
Less: Amount Representing Interest	(1,915,269)
Less: Additional Program Cost Component	(62,778)
Present Value of Minimum Lease Payments	<u>\$2,304,000</u>

## 8. PENSION PLANS

### SCHOOL EMPLOYEES RETIREMENT SYSTEM

#### Plan Description

The Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling toll free (800) 878-5853 or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org).

#### Funding Policy

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006 were \$2,148,518, \$2,229,525, and \$2,053,307, respectively; 95% has been contributed for fiscal year 2008 and 100% for fiscal year 2007 and 2006.

## STATE TEACHERS RETIREMENT SYSTEM OF OHIO

### Plan Description

The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

### Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of both the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited members accounts as employers submit their payroll information to STRS Ohio, generally biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

### DB Plan Benefits

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

### DC Plan Benefits

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

### Combined Plan Benefits

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

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

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

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

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

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

### Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2008, were 10% of covered payroll for members and 14% for employers. The Center's contributions to STRS for the years ended June 30, 2008, 2007, and 2006 were \$4,766,918, \$4,855,348, and \$4,960,283, respectively; 94% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

## **9. POST EMPLOYMENT BENEFITS**

### **SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

#### Plan Description

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

#### Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2007 (latest information available) was \$93.50; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2007 (latest information available), the actuarially required allocation was .68%. Center contributions for the year ended June 30, 2008 were \$104,357, which equaled the required contributions for the year.

#### Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.



The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2007 (the latest information available), the health care allocation was 3.32%. The actuarially required contribution (ARC), as of the December 31, 2006 annual valuation, was 11.50% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. The Center contributions for the years ended June 30, 2008, 2007, and 2006 were \$509,506, \$544,641, and \$503,060, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2007 (the latest information available), the minimum compensation level was established at \$35,800.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Forms and Publications*.

## **STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

### Plan Description

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multi-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current programs includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care cost in the form of monthly premiums.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

#### Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2008, 2007 and 2006. The 14% employer contribution rate is the maximum rate established under Ohio law. The Center contributions for the years ended June 30, 2008, 2007, and 2006 were \$340,494, \$346,811, and \$354,306, respectively.

### **10. CONTINGENT LIABILITIES**

#### **GRANTS**

The Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center as of June 30, 2008.

#### **LITIGATION**

The Center's attorney estimates that all other potential claims against the Center not covered by insurance resulting from all other litigation would not materially affect the financial statements of the Center.

### **11. RISK MANAGEMENT**

The 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. The Center carries insurance coverage with the following companies.

<u>COVERAGE</u>	<u>COMPANY</u>
Automobile	The Indiana Insurance Company
Property	The Indiana Insurance Company
General Liability	The Indiana Insurance Company

Limits and deductible amounts for the above policies vary accordingly.

<u>COVERAGE</u>	<u>LIMITS</u>	<u>DEDUCTIBLE</u>
Automobile	\$1,000,000 each occurrence	\$500 collision
Property	\$1,000,000 each occurrence	\$500 each loss
General Liability	\$1,000,000 each occurrence \$2,000,000 general aggregate	

The Center pays the State of Ohio Bureau of Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Settled claims have not exceeded the commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

## 12. STATE FUNDING

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

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

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the 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 school districts served by the Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

## 13. ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

	<u>Deficit</u>
Other Governmental Funds:	
Teacher Development	\$171,039
Modernization of Vocational Education	23,000
Data Communications	1,095
Title I Disadvantaged Children	10,204
Drug-Free School Grant	21,691
IDEA Preschool Grant	16,525

The deficits in fund balances were primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

#### 14. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2008, consisted of the following interfund receivables, interfund payable, transfers in and transfers out:

	Interfund		Transfers	
	<u>Receivable</u>	<u>Payable</u>	<u>In</u>	<u>Out</u>
General Fund	\$1,601,273	\$0	\$0	\$200,000
Miscellaneous Federal Grants	0	106,717	0	0
Other Governmental Funds	<u>0</u>	<u>1,494,556</u>	<u>200,000</u>	<u>0</u>
Total All Funds	<u>\$1,601,273</u>	<u>\$1,601,273</u>	<u>\$200,000</u>	<u>\$200,000</u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

#### 15. JOINTLY GOVERNED ORGANIZATION

##### Hamilton/Clermont Cooperative Association

The Hamilton/Clermont Cooperative Association (HCCA) is a governmental jointly governed organization consisting of 31 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports HCCA and shares in a percentage of equity based on the resources provided. HCCA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating School District is limited to its representation on the Board. The Board consists of one representative from each of the participating 31 school districts.

## Center for Regional Educational Services

Center for Regional Educational Services (CRES) is a jointly governed organization created by the Ohio Department of Education. Approximately seventy local, city, exempted village, community and private school districts receive services from CRES. CRES is operated under regulations and policies established by the Ohio Department of Education and its own governing board. The CRES Governing Board has 23 members including superintendents, special education directors and assistant superintendents, parents and community members and fiscal agent superintendents. There is also a CRES executive board that is made up of 7 members, 6 superintendents and 1 parent. The Center acts as fiscal agent for the CRES through a written agreement. CRES receives funding from state and federal grants.

## Unified Purchasing Cooperative

The Unified Purchasing Cooperative is comprised of over 50 public school district's and nearly 90 non-public schools in Brown, Butler, Clermont, Hamilton (OH); Boone, Campbell, Kenton (KY); Dearborn, Ohio, Ripley (IN) counties; 4 Educational Service Centers, 2 Head Start Programs, 2 MRDD's and the Diocese of Covington.

By aggregating the requirements of its members, each member's purchasing power increases and as a result Unified Purchasing Cooperative is able to obtain the best prices for quality products and services.

## **16. CLAIMS SERVICING POOL**

The District participates in Greater Cincinnati Insurance Consortium (GCIC) Self-Insurance Program, a shared risk pool, comprised of other area school districts. Each member pays an administrative fee to the pool. Each school district has a representative on the assembly (usually the superintendent or designee).

## **17. CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2008, the Center has implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

Statement No. 45 addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits. This also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. Collectively, these benefits are commonly referred to as "other postemployment benefits (OPEB)."

There was no effect on fund balance/net assets as a result of the implementation of these new standards.

# **REQUIRED SUPPLEMENTARY INFORMATION**

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Hamilton County Educational Service Center  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2008

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Tuition and Fees	\$1,883,963	\$1,817,320	\$1,817,320	\$0
Investment Earnings	334,066	322,249	322,249	0
Intergovernmental	4,098,857	3,953,865	3,953,865	0
Contract Services	26,810,821	25,862,420	25,862,420	0
Other Revenues	4,720	4,553	4,553	0
<b>Total Revenues</b>	<b>33,132,427</b>	<b>31,960,407</b>	<b>31,960,407</b>	<b>0</b>
Expenditures:				
Current:				
Instruction:				
Special	8,268,874	8,240,596	8,240,596	0
Vocational	199,194	198,513	198,513	0
Support Services:				
Pupil	7,667,122	7,640,902	7,640,902	0
Instructional Staff	3,977,061	3,963,460	3,963,460	0
General Administration	28,171	28,075	28,075	0
School Administration	1,437,545	1,432,629	1,432,629	0
Fiscal	703,616	701,210	701,210	0
Business	472,237	470,622	470,622	0
Operations and Maintenance	408,800	407,402	407,402	0
Central	737,752	735,229	735,229	0
Operation of Non-Instructional Services	6,740,258	6,717,207	6,717,207	0
Debt Service:				
Principal Retirement	37,000	37,000	37,000	0
Interest and Fiscal Charges	110,602	110,097	110,097	0
<b>Total Expenditures</b>	<b>30,788,232</b>	<b>30,682,942</b>	<b>30,682,942</b>	<b>0</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>2,344,195</b>	<b>1,277,465</b>	<b>1,277,465</b>	<b>0</b>
Other financing sources (uses):				
Advances In	1,584,508	1,528,458	1,528,458	0
Advances (Out)	(1,672,208)	(1,666,489)	(1,666,489)	0
Transfers (Out)	(200,686)	(200,000)	(200,000)	0
<b>Total Other Financing Sources (Uses)</b>	<b>(288,386)</b>	<b>(338,031)</b>	<b>(338,031)</b>	<b>0</b>
<b>Net Change in Fund Balance</b>	<b>2,055,809</b>	<b>939,434</b>	<b>939,434</b>	<b>0</b>
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	3,143,467	3,143,467	3,143,467	0
<b>Fund Balance End of Year</b>	<b>\$5,199,276</b>	<b>\$4,082,901</b>	<b>\$4,082,901</b>	<b>\$0</b>

See accompanying notes to the required supplementary information.

Hamilton County Educational Service Center  
 Schedule of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual (Non-GAAP Budgetary Basis)  
 For the Fiscal Year Ended June 30, 2008

	Miscellaneous Federal Grants Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	\$4,606,958	\$4,335,082	\$4,335,082	\$0
Total Revenues	4,606,958	4,335,082	4,335,082	0
Expenditures:				
Current:				
Support Services:				
School Administration	87,766	469,901	469,901	0
Fiscal	22,772	121,921	121,921	0
Central	9,293	49,755	49,755	0
Operation of Non-Instructional Services	694,124	3,716,346	3,716,346	0
Total Expenditures	813,955	4,357,923	4,357,923	0
Excess of Revenues Over (Under) Expenditures	3,793,003	(22,841)	(22,841)	0
Other financing sources (uses):				
Advances In	113,410	106,717	106,717	0
Advances (Out)	(109,484)	(586,179)	(586,179)	0
Total Other Financing Sources (Uses)	3,926	(479,462)	(479,462)	0
Net Change in Fund Balance	3,796,929	(502,303)	(502,303)	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	784,226	784,226	784,226	0
Fund Balance End of Year	\$4,581,155	\$281,923	\$281,923	\$0

See accompanying notes to the required supplementary information.



**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
For The Year Ended June 30, 2008**

**1. BUDGETARY PROCESS**

The Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education. However, the Center's Board approves a budget for the General Fund and the Miscellaneous Federal Grants Fund on or before the start of the new fiscal year, which includes estimated resources and expenditures.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Center's Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2008.

While the Center is reporting financial position, results of operations and changes in fund balance 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 Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and 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 for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund and Miscellaneous Federal Grants Fund:

Net Change in Fund Balance

	General	Miscellaneous Federal Grants
GAAP Basis	\$1,372,136	\$581,993
Net Adjustment for Revenue Accruals	(370,221)	(366,324)
Net Adjustment for Expenditure Accruals	133,568	173,115
Advances In	1,528,458	106,717
Advances Out	(1,666,489)	(586,179)
Encumbrances	(58,018)	(411,625)
Budget Basis	<u>\$939,434</u>	<u>(\$502,303)</u>

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2008

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Child & Adult Care Food Program	n/a	10.558	\$ 387,497	352,379
Total U.S. Department of Agriculture			<u>387,497</u>	<u>352,379</u>
<u>U.S. Department of Education:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Title I Grants to Local Educational Agencies	C1	84.010	284,232	291,737
Safe and Drug-Free Schools and Communities - State Grants	DR	84.186	152,139	184,520
Javits Gifted & Talented Students Education Grant Program	JG	84.206	4,777	5,841
Special Education- State Personnel Development	ST	84.323	655,888	656,406
English Language Acquisition Grants	T3	84.365	30,323	31,761
Improving Teacher Quality State Grants	TR	84.367	336,112	330,544
Ohio River Valley Grant	n/a	84.215	193,815	193,815
Special Education Cluster:				
Special Education - Grants to States	6B	84.027	1,903,733	2,206,475
Special Education - Preschool Grants	PG	84.173	40,630	57,369
Total Special Education Cluster			<u>1,944,363</u>	<u>2,263,844</u>
Total U.S. Department of Education			<u>3,601,649</u>	<u>3,958,468</u>
<u>U.S. Department of Health &amp; Human Services:</u>				
<i>(Passed through Ohio Department of Job and Family Services)</i>				
Temporary Assistance for Needy Families	n/a	93.558	3,909,022	3,556,829
<i>(Passed through Cincinnati-Hamilton Co. Community Action Agency)</i>				
Head Start	n/a	93.600	4,529,571	4,106,092
<i>(Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>				
Community Alternative Funding System (CAFS)	n/a	93.778	17,843	17,843
Total U.S. Department of Health & Human Services			<u>8,456,436</u>	<u>7,680,764</u>
Total Federal Awards			\$ <u>12,445,582</u>	<u>11,991,611</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The schedule of expenditures of federal awards is a summary of the activity of the Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Hamilton County Educational Service Center:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County Educational Service Center (the "Service Center") as of and for the year ended June 30, 2008, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated December 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiency described above is a material weakness.

### **Compliance And Other Matters**

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

We noted certain matters that we reported to management of the Service Center in a separate letter dated December 18, 2008.

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

This report is intended solely for the information and use of the Service Center's management, the Board of Education, others within the entity, the Ohio Auditor of State and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

*Clark, Schaefer, Haskett & Co.*

Cincinnati, Ohio  
December 18, 2008

## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education  
Hamilton County Educational Service Center:

### **Compliance**

We have audited the compliance of the Hamilton County Educational Service Center (the "Service Center") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Service Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

### **Internal Control Over Compliance**

The management of the Service Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over compliance.

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

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

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

This report is intended solely for the information and use of the Service Center's management, the Board of Education, others within the entity, the Ohio Auditor of State and federal awarding agencies and pass-through entities, and is not intended to be and should be used by anyone other than these specified parties.

*Clark, Schaefer, Hachett & Co.*

Cincinnati, Ohio  
December 18, 2008

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER**  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2008

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued:	unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	yes
Noncompliance material to the financial statements noted?	none

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Type of auditors’ report issued on compliance for major programs:	unqualified
Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133?	no
Identification of major programs:	
<i>CFDA 93.600 – Head Start</i>	
<i>CFDA 84.027 &amp; 84.173 – Special Education Cluster</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$359,748
Auditee qualified as low-risk auditee?	no



## **Section II – Financial Statement Findings**

### **Finding 2008-1 – Audit Adjustment**

During the course of our audit, we identified a misstatement in the financial statements for the year under audit that was not initially identified by the Service Center's internal control. Throughout the year, the Service Center maintains its books and records on the cash-basis of accounting and converts its financial statements at year-end to generally accepted accounting principles. The audit adjustment was necessary to correct errors in the Service Center's conversion process. Specifically, an audit adjustment was necessary to correct intergovernmental receivables at June 30, 2008 that were understated in Other Governmental Funds by \$841,291.

***Views of Responsible Officials:** Management concurs with the finding.*

## **Section III – Federal Award Findings and Questioned Costs**

None.

## HAMILTON COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Prior Audit Findings

Year Ended June 30, 2008

### Finding 2007-1 – Prior Period Adjustment

Subsequent to June 30, 2006, it was determined the Service Center's capital assets were overstated by \$3,057,874 at June 30, 2006 due to equipment and furnishings which had been disposed but had not been removed from capital assets records. A prior period adjustment was reported in the financial statements for the year ended June 30, 2007 to adjust net assets in the amount of \$30,166 to remove the cost of the capital of assets in the amount of \$3,057,874 and the related accumulated depreciation of \$3,027,708.

**Status:** *Corrected*

### Finding 2007-2 – Audit Adjustments

During the course of our audit, we identified a number of material misstatements in the financial statements for the year under audit that were not initially identified by the Service Center's internal control. Throughout the year, the Service Center maintains its books and records on the cash-basis of accounting and converts its financial statements at year-end to generally accepted accounting principles. The audit adjustments were necessary to correct errors in the Service Center's conversion process. A description of each adjustment follows:

- **Compensated Absences.** An audit adjustment was necessary to correct compensated absences. The Service Center reported a liability for severance payments that had been paid prior to June 30, 2007. Liabilities were overstated by \$212,155.
- **Intergovernmental Receivables.** Audit adjustments were necessary to correct intergovernmental receivables and deferred revenue. Intergovernmental receivables reported at June 30, 2007 were overstated in the Miscellaneous Federal Grant Fund by \$466,781 due to the recording of receivables for grants for which eligibility requirements had not been met. Also, deferred revenue was overstated in the Head Start Fund by \$715,187 as the Service Center had not properly recognized revenue for items received in the available period.
- **Capital Assets.** Capital assets in the Governmental Activities were overstated by \$345,830 due to an improper capitalization of the building purchase.

**Status:** *Partially corrected. Repeated finding related to recording of intergovernmental receivables.*



**Mary Taylor, CPA**  
Auditor of State

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER**

**HAMILTON 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  
FEBRUARY 3, 2009**