Perry-Hocking Educational Service Center
Perry County, Ohio

Single Audit

July 1, 2008 through June 30, 2009
Fiscal Year Audited Under GAGAS: 2009

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Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Perry-Hocking Educational Service Center, Perry County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 6, 2010

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Perry County, Ohio
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Independent Auditor's Report

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2010 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards.* You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The supplementary information on pages 40 through 43 provides additional information and is not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures on page 46 required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the supplementary information and the schedule of federal awards receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
January 29, 2010

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2009 are as follows:

- In total, net assets decreased $270,768.
- Program specific revenues, in the form of charges for services and sales and operating grants and contributions, accounted for $5,845,613, or 93 percent of total revenues.
- The Educational Service Center had $6,529,765 in total expenses. Only $5,845,613 of these expenses was offset by program specific charges for services and sales and operating grants and contributions. The remaining $684,152 of these expenses was partially offset by general revenues of $413,384.

USING THIS ANNUAL FINANCIAL REPORT

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

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

Reporting the Educational Service Center as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the Educational Service Center to provide programs and activities for students, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2009?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the mandated educational programs, as well as locally requested programs.

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 8. Fund financial statements provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund, Public School Support, Public Preschool, and the Miscellaneous Federal Grants Special Revenue Funds.

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The Educational Service Center's fiduciary fund is an agency fund which is used to maintain financial activity of the Educational Service Center employee flexible spending plans. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

THE EDUCATIONAL SERVICE CENTER AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2009 compared to 2008.

Table 1
Net Assets

	Governmental Activities	
	2009	2008
Assets		
Current and Other Assets	$ 958,813	$ 1,120,826
Capital Assets, Net	519,078	564,058
Total Assets	1,477,891	1,684,884
Liabilities		
Long-Term Liabilities	323,731	279,053
Current and Other Liabilities	951,002	931,905
Total Liabilities	1,274,733	1,210,958
Net Assets		
Invested in Capital Assets, Net of Related Debt	465,288	499,022
Restricted	184,021	15,290
Unrestricted (Deficit)	(446,151)	(40,386)
Total Net Assets	$ 203,158	$ 473,926

Total net assets decreased $270,768. This decrease is primarily due to a decrease in current and other assets resulting from a decrease in intergovernmental receivable from the prior year and cash held by the Educational Service Center at June 30, 2009. Long-term liabilities increased primarily resulting from an increase in compensated absences due to additional employees becoming eligible for severance payments. Current and other liabilities increased due to an increase in accounts payable as a result of additional payables for the Think History grant that did not occur in the prior year, which was partially offset by a decrease in matured compensated absences payable due to fewer employees receiving severance payments.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2009 as compared to 2008.

Table 2
Changes in Net Assets

	Governmental Activities	
	2009	2008
Revenues		
Program Revenues		
Charges for Services and Sales	$ 4,192,185	$ 4,056,582
Operating Grants and Contributions	1,653,428	1,858,746
Total Program Revenues	5,845,613	5,915,328
General Revenues		
Grants and Entitlements Not Restricted	337,981	501,866
Investment Earnings	9,010	23,303
Gifts and Donations Not Restricted	-	3,195
Miscellaneous	66,393	74,439
Total General Revenues	413,384	602,803
Total Revenues	6,258,997	6,518,131
Program Expenses		
Instruction:		
Regular	960,570	807,318
Special	825,473	899,426
Vocational	-	12,295
Adult/Continuing	36,958	39,816
Other	47,445	51,871
Support Services:		
Pupils	967,862	1,155,336
Instructional Staff	2,073,043	1,987,548
Board of Education	46,642	35,766
Administration	897,643	1,044,287
Fiscal	221,146	225,720
Operation and Maintenance of Plant	223,958	181,796
Pupil Transportation	15,401	42,926
Central	183,832	121,171
Operation of Non-Instructional Services	22,335	12,407
Extracurricular Activities	2,660	3,036
Interest and Fiscal Charges	4,797	4,237
Total Expenses	6,529,765	6,624,956
Change in Net Assets	(270,768)	(106,825)
Net Assets, Beginning of Year	473,926	580,751
Net Assets, End of Year	$ 203,158	$ 473,926

Operating grants and contributions and grants and entitlements not restricted decreased primarily as a result of a decrease in State funding and grant revenue received by the Educational Service Center. Investment earnings decreased due to a decline in interest rates and decreased cash balances held in banks.

Expenses for pupils and administration decreased primarily due to payroll related items. Regular instruction increased as a result of changing contract staffing needs due to the changes in grants received and services provided to the local school districts by the Educational Service Center as well as, the Educational Service Center's diligence in keeping expenses to a minimum.

Governmental Activities

Charges for services and sales comprised 67 percent of revenue for governmental activities, while operating grants and contributions comprised 26 percent of revenue for governmental activities of the Educational Service Center for fiscal year 2009.

As indicated by governmental program expenses, support services are emphasized. Support services instructional staff comprised 32 percent of governmental program expenses with support services pupils and support services administration comprising 15 and 14 percent, respectively, of governmental expenses.

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

Table 3
Governmental Activities

	Total Cost of Services 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
Program Expenses				
Instruction:				
Regular	$ 960,570	$ 86,761	$ 807,318	$ 65,721
Special	825,473	95,429	899,426	109,034
Vocational	-	-	12,295	1,455
Adult/Continuing	36,958	2,191	39,816	2,020
Other	47,445	11,469	51,871	2,126
Support Services:				
Pupils	967,862	93,854	1,155,336	119,876
Instructional Staff	2,073,043	205,515	1,987,548	218,431
Board of Education	46,642	5,341	35,766	4,232
Administration	897,643	102,900	1,044,287	115,648
Fiscal	221,146	24,073	225,720	23,815
Operation and Maintenance of Plant	223,958	34,583	181,796	21,952
Pupil Transportation	15,401	975	42,926	1,878
Central	183,832	19,462	121,171	9,550
Operation of Non-Instructional Services	22,335	882	12,407	9,529
Extracurricular Activities	2,660	144	3,036	124
Interest and Fiscal Charges	4,797	573	4,237	4,237
Total	$ 6,529,765	$ 684,152	$ 6,624,956	$ 709,628

THE EDUCATIONAL SERVICE CENTER FUNDS

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of $6,224,756 and expenditures of $6,472,608. The net change in fund balance for the year was most significant in the General Fund.

The fund balance of the General Fund decreased $175,691 due mainly because contract services, passed through the State Foundation, reported in accordance with Auditor of State Technical Bulletin 2002-007, decreased by $178,795.

The fund balance of the Public Preschool Special Revenue Fund decreased $1,155. The fund balance in the Public School Support Fund increased $42,674 due to an increase in tuition and fees, which was partially offset by an increase in expenditures. The fund balance in the Miscellaneous Federal Grants Fund decreased $99,150 due to an increase in expenditures from the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2009, the Educational Service Center had $519,078 invested in land, construction in progress, buildings and improvements, furniture, fixtures and equipment, and vehicles. Table 4 shows fiscal year 2009 balances compared to 2008.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2009	2008
Land	$ 193,898	$ 193,898
Construction in Progress	14,231	9,905
Buildings and Improvements	178,321	188,118
Furniture, Fixtures and Equipment	130,123	167,962
Vehicles	2,505	4,175
Totals	$ 519,078	$ 564,058

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

Debt

At June 30, 2009, the Educational Service Center had capital leases outstanding of $53,790 for copiers. For additional information on debt, see Note 12 to the basic financial statements.

CONTACTING THE EDUCATIONAL SERVICE CENTER'S FINANCIAL MANAGEMENT

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

Perry-Hocking Educational Service Center
Statement of Net Assets
June 30, 2009

		Governmental Activities
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	$	826,036
Accounts Receivable		64,559
Intergovernmental Receivable		68,218
Noncurrent Assets:		
Non-Depreciable Capital Assets		208,129
Depreciable Capital Assets, net		310,949
Total Assets		1,477,891
LIABILITIES:		
Current Liabilities:		
Accounts Payable		143,497
Accrued Wages and Benefits		618,492
Intergovernmental Payable		178,860
Claims Payable		10,153
Noncurrent Liabilities:		
Long-Term Liabilities:		
Due Within One Year		30,516
Due in More Than One Year		293,215
Total Liabilities		1,274,733
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		465,288
Restricted for Capital Outlay		8,785
Restricted for Other Purposes		175,236
Unrestricted (Deficit)		(446,151)
Total Net Assets	$	203,158

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

Perry-Hocking Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2009

	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:				
Instruction:				
Regular	$ 960,570	$ 522,437	$ 351,372	$ (86,761)
Special	825,473	673,694	56,350	(95,429)
Adult/Continuing	36,958	4,789	29,978	(2,191)
Other	47,445	4,956	31,020	(11,469)
Support Services:				
Pupils	967,862	666,709	207,299	(93,854)
Instructional Staff	2,073,043	1,417,940	449,588	(205,515)
Board of Education	46,642	35,829	5,472	(5,341)
Administration	897,643	502,597	292,146	(102,900)
Fiscal	221,146	164,899	32,174	(24,073)
Operation and Maintenance of Plant	223,958	85,538	103,837	(34,583)
Pupil Transportation	15,401	3,475	10,951	(975)
Central	183,832	102,087	62,283	(19,462)
Operation of Non-Instructional Services	22,335	2,955	18,498	(882)
Extracurricular Activities	2,660	347	2,169	(144)
Interest and Fiscal Charges	4,797	3,933	291	(573)
Total Governmental Activities	$ 6,529,765	$ 4,192,185	$ 1,653,428	(684,152)
General Revenues:				
Grants and Entitlements not Restricted to Specific Programs				337,981
Investment Earnings				9,010
Miscellaneous				66,393
Total General Revenues				413,384
Change in Net Assets				(270,768)
Net Assets Beginning of Year				473,926
Net Assets End of Year				$ 203,158

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

Perry-Hocking Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2009

	General	Public School Support	Public Preschool	Miscellaneous Federal Grants	All Other Governmental Funds	Total Governmental Funds
ASSETS:						
Equity in Pooled Cash and Cash Equivalents	$ 321,059	$ 117,249	$ 33,857	$ -	$ 78,222	$ 550,387
Accounts Receivable	64,559	-	-	-	-	64,559
Interfund Receivable	21,449	-	-	-	-	21,449
Intergovernmental Receivable	-	-	44,628	20,890	2,700	68,218
Total Assets	$ 407,067	$ 117,249	$ 78,485	$ 20,890	$ 80,922	$ 704,613
LIABILITIES:						
Accounts Payable	$ 3,087	$ 221	$ 642	$ 139,478	$ 69	$ 143,497
Accrued Wages and Benefits	531,709	3,171	72,026	9,086	2,500	618,492
Interfund Payable	-	-	-	21,449	-	21,449
Intergovernmental Payable	153,456	4,950	17,110	1,061	2,283	178,860
Deferred Revenue	-	-	44,628	-	-	44,628
Total Liabilities	688,252	8,342	134,406	171,074	4,852	1,006,926
FUND BALANCES:						
Reserved:						
Reserved for Encumbrances	8,449	1,666	40,382	235,258	20,065	305,820
Unreserved, Undesignated, Reported in:						
General Fund	(289,634)	-	-	-	-	(289,634)
Special Revenue Funds	-	107,241	(96,303)	(385,442)	47,220	(327,284)
Capital Projects Funds	-	-	-	-	8,785	8,785
Total Fund Balances	(281,185)	108,907	(55,921)	(150,184)	76,070	(302,313)
Total Liabilities and Fund Balances	$ 407,067	$ 117,249	$ 78,485	$ 20,890	$ 80,922	$ 704,613

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

Perry-Hocking Educational Service Center
Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2009

Total Governmental Fund Balances		$	(302,313)
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.			519,078
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:			
Grants			44,628
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			265,496
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Capital Leases	(53,790)		
Compensated Absences	(269,941)		(323,731)
Net Assets of Governmental Activities		$	203,158

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

Perry-Hocking Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2009

	General	Public School Support	Public Preschool	Miscellaneous Federal Grants	All Other Governmental Funds	Total Governmental Funds
REVENUES:						
Intergovernmental	$ 632,232	$ -	$ 646,034	$ 493,328	$ 226,943	$ 1,998,537
Interest	9,010	-	-	-	-	9,010
Contract Services	3,029,036	-	-		-	3,029,036
Gifts and Donations	-	1,013	-	-	900	1,913
Tuition and Fees	948,319	171,548	-	-	-	1,119,867
Miscellaneous	7,051	13,107	1,551	-	44,684	66,393
Total Revenues	4,625,648	185,668	647,585	493,328	272,527	6,224,756
EXPENDITURES:						
Current:						
Instruction:						
Regular	571,983	12,737	299,277	22,960	52,274	959,231
Special	806,779	-	-	-	8,057	814,836
Adult/Continuing	-	-	-	-	36,761	36,761
Other	-	93	-	37,946	-	38,039
Support Services:						
Pupils	785,094	3,779	51,439	86,854	53,702	980,868
Instructional Staff	1,655,400	39,677	143,155	161,813	84,329	2,084,374
Board of Education	43,142	-	-	-	3,500	46,642
Administration	538,297	32,438	60,348	196,036	30,599	857,718
Fiscal	183,115	173	8,512	13,190	2,907	207,897
Operation and Maintenance of Plant	85,620	30,653	83,015	-	4,170	203,458
Pupil Transportation	2,130	895	2,994	8,878	504	15,401
Central	113,736	-	-	64,801	3,064	181,601
Operation of Non-Instructional Services	-	22,549	-	-	135	22,684
Extracurricular Activities	-	-	-	-	2,660	2,660
Capital Outlay	-	-	-	-	4,395	4,395
Debt Service:						
Principal	11,246	-	-	-	-	11,246
Interest	4,797	-	-	-	-	4,797
Total Expenditures	4,801,339	142,994	648,740	592,478	287,057	6,472,608
Net Change in Fund Balances	(175,691)	42,674	(1,155)	(99,150)	(14,530)	(247,852)
Fund Balances at Beginning of Year	(105,494)	66,233	(54,766)	(51,034)	90,600	(54,461)
Fund Balances at End of Year	$ (281,185)	$ 108,907	$ (55,921)	$ (150,184)	$ 76,070	$ (302,313)

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

Perry-Hocking Educational Service Center
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds		$ (247,852)
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeded capital asset additions in the current period:		
Capital Asset Additions	14,254	
Depreciation Expense	(59,234)	
		(44,980)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Intergovernmental	(9,041)	
Tuition and Fees	43,282	
		34,241
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		32,501
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		11,246
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Increase in Compensated Absences	(55,924)	
		(55,924)
Change in Net Assets of Governmental Activities		$ (270,768)

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

Perry-Hocking Educational Service Center

Statement of Net Assets - Governmental Activities

Internal Service Fund

June 30, 2009

	Internal Service
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	$ 275,649
Total Assets	275,649
LIABILITIES:	
Current Liabilities:	
Claims Payable	10,153
Total Liabilities	10,153
NET ASSETS:	
Unrestricted	265,496
Total Net Assets	$ 265,496

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

Perry-Hocking Educational Service Center

Statement of Revenues, Expenses and Changes in Fund Net Assets - Governmental Activities
Internal Service Fund
For the Fiscal Year Ended June 30, 2009

	Internal Service
OPERATING REVENUES:	
Charges for Services	$ 924,829
Total Operating Revenues	924,829
OPERATING EXPENSES:	
Purchased Services	28,509
Claims	863,819
Total Operating Expenses	892,328
Change in Net Assets	32,501
Net Assets at Beginning of Year	232,995
Net Assets at End of Year	$ 265,496

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

Perry-Hocking Educational Service Center
Statement of Cash Flows - Governmental Activities
Internal Service Fund
For the Fiscal Year Ended June 30, 2009

	Internal Service
Increase in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Customers	$ 924,829
Cash Payments for Claims	(863,792)
Cash Payments for Purchased Services	(28,509)
Net Cash Provided by Operating Activities	32,528
Net Increase in Cash and Cash Equivalents	32,528
Cash and Cash Equivalents at Beginning of Year	243,121
Cash and Cash Equivalents at End of Year	$ 275,649
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	$ 32,501
Changes in Liabilities:	
Increase in Claims Payable	27
Net Cash Provided by Operating Activities	$ 32,528

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

Perry-Hocking Educational Service Center

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2009

ASSETS:	
Equity in Pooled Cash and Cash Equivalents	$ 7,035
Total Assets	$ 7,035
LIABILITIES:	
Undistributed Monies	$ 7,035
Total Liabilities	$ 7,035

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

Note 1 – Reporting Entity

The Perry-Hocking Educational Service Center (the "Educational Service Center') is located in New Lexington, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Northern, Southern, Logan-Hocking Local School Districts, the New Lexington City School District, and the Crooksville Exempted Village School District. The Educational Service Center furnishes these services to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board of Education consisting of seven members elected at-large for staggered four year terms. The Educational Service Center has two administrators, 75 certified teaching personnel, and 111 classified employees that provide services to 10,473 students from the local, exempted village, and city school districts.

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

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

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the Internal Service Fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the Educational Service Center that are governmental and those that are classified as business-type activities. However, the Educational Service Center has no activities that are classified as business-type activities.

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

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

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by the Educational Service Center can be classified using three categories: governmental, proprietary, and fiduciary.

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

> ***General Fund*** The General Fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.
>
> ***Public School Support Fund*** The Public School Support Fund accounts for specific local revenue sources, other than taxes or expendable trusts (i.e., profits from vending machines, sales of pictures, etc.), that are restricted to expenditures for specified purposes approved by board resolution. Such expenditures may include curricular and extra-curricular related purchases.
>
> ***Public Preschool Fund*** The Public Preschool Fund accounts for monies received for preschool programs.

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

B. Fund Accounting *(Continued)*

> ***Miscellaneous Federal Grants Fund*** The Miscellaneous Federal Grants Fund accounts for various monies received through state agencies from the federal government or directly from the federal government which are not classified elsewhere.

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

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

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The Educational Service Center's fiduciary fund is an agency fund which accounts for resources held for employee flexible spending plans. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using 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 reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

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

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

D. Basis of Accounting

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

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

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

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

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

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

E. Cash and Cash Equivalents

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

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2009 amounted to $9,010.

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

E. Cash and Cash Equivalents *(Continued)*

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented as cash and cash equivalents.

F. Capital Assets

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

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

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

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

G. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the statement of activities. The Educational Service Center had no transfers during fiscal year 2009.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for employees after ten years of service.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid. The Educational Service Center had no matured compensated absences payable as of June 30, 2009.

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

I. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Capital leases are recognized as a liability on the governmental fund financial statements when due.

J. Interfund Balances

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

K. Fund Balance Reserves

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for federal and state grants restricted for specific purposes.

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

As of June 30, 2009, the Educational Service Center had $184,021 in restricted net assets, none of which is restricted by enabling legislation.

M. Estimates

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

N. Budgetary Process

Although not legally required, the Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts: Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

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

N. Budgetary Process *(Continued)*

In fiscal year 2004, the Educational Service Center's requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Educational Service Center was discretionary, the Educational Service Center continued to have its Board approve appropriations and estimated revenues. The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board.

O. Operating Revenues and Expenses

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

Note 3 - Deposits and Investments

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

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

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

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

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

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

2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

4. Bonds and other obligations of the State of Ohio;

Note 3 - Deposits and Investments *(Continued)*

5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

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

8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;

9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code;

10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and

11. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

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

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

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

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

As of June 30, 2009, the Educational Service Center's bank balance of $593,845 is either covered by FDIC insurance or collateralized by the financial institutions' public entity pools in the manner described above.

Note 3 - Deposits and Investments *(Continued)*

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

	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	$ 476,102	< 1 Year

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

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. STAR Ohio carries a rating of AAAm by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center's investment policy does not address credit risk beyond the requirements of the Ohio Revised Code.

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

Custodial credit risk – Custodial credit risk is the risk that in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Educational Service Center's securities are either insured and registered in the name of the Educational Service Center or at least registered in the name of the Educational Service Center. The Educational Service Center's investment policy does not address custodial credit risk beyond the requirements of the Ohio Revised Code.

Note 4 – State Funding

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

Part (B) of the budget is provided by the local, city and exempted village school districts to which the Educational Service Center provides services and by the State Department of Education. Each local school district's portion is determined by multiplying the average daily membership of the local school district (the total number of students enrolled) by $10.75. Each city school district's portion is determined by multiplying the average daily membership of the city school district (the total number of students enrolled) by $6.50. Each exempted village school district's portion is determined by multiplying the average daily membership of the exempted village school district (the total number of students enrolled) by $6.50. This amount is deducted by the State Department of Education from that local school district's resources provided under the State's School Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the local school districts served by the Educational Service Center by $33.44. This amount is provided from State resources.

Note 4 – State Funding *(Continued)*

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

Note 5 - Receivables

Receivables at June 30, 2009, consisted of accounts, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected in one year.

A summary of the principal items of intergovernmental receivables follows:

Major Funds:	
Public Preschool Fund	$ 44,628
Miscellaneous Federal Grants Fund	20,890
Total Major Funds	65,518
Non-Major Special Revenue Funds:	
ABLE Fund	1,500
Handicapped Preschool Fund	1,200
Total Non-Major Special Revenue Funds	2,700
Total All Funds	$ 68,218

Note 6 - Risk Management

A. Property and Liability

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

During fiscal year 2009, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district and educational service center enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP. (See Note 14)

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

General Liability:	
Each Occurrence	$ 2,000,000
Aggregate Limit	4,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Personal and Advertising injury Limit - Each Offense	2,000,000
Fire Damage Limit - Any One Event	500,000
Auto:	
Each Occurrence	1,000,000
Employer's Liability:	
Each Occurrence	2,000,000
Disease - Each Employee	2,000,000
Disease - Policy Limit	2,000,000
Employee's Benefits Liability:	
Each Occurrence	2,000,000
Aggregate Limit	4,000,000
Property Damage:	
Each Occurrence	682,220

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

Note 6 - Risk Management *(Continued)*

B. Workers' Compensation

For fiscal year 2009, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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

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

The claims liability of $10,153 reported in the internal service fund at June 30, 2009, is based upon an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Beginning of Year	Current Year Claims	Claims Payments	End of Year
2008	$ 16,934	$ 823,936	$ 830,744	$ 10,126
2009	10,126	863,819	863,792	10,153

Note 7 – Capital Assets

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

	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009
Capital Assets:				
Capital Assets not being Depreciated:				
Land	$ 193,898	$ -	$ -	$ 193,898
Construction in Progress	9,905	4,326	-	14,231
Total Capital Assets not being Depreciated	203,803	4,326	-	208,129
Depreciable Capital Assets:				
Buildings and Improvements	217,646	-	-	217,646
Furniture, Fixtures, and Equipment	615,886	9,928	(6,973)	618,841
Vehicles	16,706	-	-	16,706
Total Depreciable Capital Assets	850,238	9,928	(6,973)	853,193
Less Accumulated Depreciation:				
Buildings and Improvements	(29,528)	(9,797)	-	(39,325)
Furniture, Fixtures, and Equipment	(447,924)	(47,767)	6,973	(488,718)
Vehicles	(12,531)	(1,670)	-	(14,201)
Total Accumulated Depreciation	(489,983)	(59,234)	6,973	(542,244)
Total Capital Assets being Depreciated, Net	360,255	(49,306)	-	310,949
Capital Assets, Net	$ 564,058	$ (44,980)	$ -	$ 519,078

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$ 1,237
Special	1,226
Adult/Continuing	227
Other	9,406
Support Services:	
Pupils	1,921
Instructional Staff	1,686
Administration	21,387
Fiscal	58
Operation and Maintenance of Plant	19,855
Central	2,231
Total Depreciation Expense	$ 59,234

Note 8 - Defined Benefit Pension Plans

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement, 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 writing to the School Employees Retirement System, 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, www.ohsers.org, under *Employers/Audit Resources*.

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2009, the allocation to pension and death benefits is 9.09 percent. The remaining 4.91 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Fund. The Educational Service Center's contributions to SERS which were allocated for pension and death benefits for the fiscal years ended June 30, 2009, 2008 and 2007 were $117,369, $139,615, and $133,752, respectively; 54 percent of the required contribution has been made for fiscal year 2009 and 100 percent of the required contribution has been made for fiscal years 2008 and 2007. $54,469 represents the unpaid contribution for fiscal year 2009 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system.

STRS Ohio 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.

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 percent of earned compensation among various investment choices. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

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

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

B. State Teachers Retirement System *(Continued)*

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for 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 Defined Benefit Plan participants.

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

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

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.

For the fiscal years ended June 30, 2009, 2008, and 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Educational Service Center's contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were $335,520, $343,533, and $368,607, respectively; 84 percent of the required contribution has been made for fiscal year 2009 and 100 percent of the required contribution has been made for fiscal years 2008 and 2007. $52,753 represents the unpaid contribution for fiscal year 2009 and is recorded as a liability within the respective funds.

STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771 or by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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

C. Social Security System

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

Note 9 - Postemployment Benefits

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 authorizes STRS Ohio to offer a cost-sharing, multiple-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 program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to Section 3307 of the Ohio 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 costs in the form of a monthly premium.

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

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2009, 2008 and 2007. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the Educational Service Center, these amounts equaled $26,510, $24,538, and $26,329 for fiscal years 2009, 2008, and 2007, respectively.

In addition to a cost-sharing, multiple-employer defined benefit pension plan, the School Employees Retirement System (SERS) administers two post employment 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 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 2009 was $96.40; 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 years 2009, 2008, and 2007, the actuarially required allocations were 0.75 percent, 0.66 percent, and 0.68 percent, respectively. For the Educational Service Center, contributions for the years ended June 30, 2009, 2008, and 2007, were $10,444, $9,174 and $6,497, respectively, which equaled the required contributions for those years.

Health Care Plan

Ohio Revised Code 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, Medicare Advantage, 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.

Note 9 - Postemployment Benefits *(Continued)*

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. 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 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2009, the minimum compensation level was established at $35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. At June 30, 2009, 2008, and 2007, the health care allocations were 4.16 percent, 4.18 percent, and 3.32 percent, respectively. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2009, 2008, and 2007 fiscal years equaled $57,930, $62,904 and $57,316, respectively.

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 upon 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 under *Employers/Audit Resources*.

Note 10- Employee Benefits

A. Insurance Benefits

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

Health insurance is provided by Medical Mutual of Ohio. Monthly premiums for this coverage are $1,061 for family coverage and $355 for single coverage. The Educational Service Center pays 90% of both family and single coverage premiums.

B. Compensated Absences

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

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

Note 11 – Capital Leases – Lessee Disclosure

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

Future minimum lease payments as of June 30, 2009 are as follows:

Year	Amount
2010	$ 16,043
2011	16,043
2012	16,043
2013	14,706
Total	62,835
Less: Amount Representing Interest	(9,045)
Present Value of Net Minimum Lease Payments	$ 53,790

The new copiers were capitalized in the amount of $65,934. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2009 were $11,246 in the governmental funds.

Note 12 - Long-Term Obligations

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

	Principal Outstanding 06/30/08	Additions	Deductions	Principal Outstanding 6/30/09	Amounts Due in One Year
Governmental Activities:					
Capital Leases	$ 65,036	$ -	$ 11,246	$ 53,790	$ 12,180
Compensated Absences	214,017	269,941	214,017	269,941	18,336
Total Governmental Activities Long-Term Liabilities	$ 279,053	$ 269,941	$ 225,263	$ 323,731	$ 30,516

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

Note 13 - Jointly Governed Organizations

A. Southeast Ohio Voluntary Educational Consortium

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

SEOVEC is governed by a governing board which is selected by the members. Each member has one vote in all matters, and each member's control over budgeting and financing of SEOVEC is limited to its voting authority and any representation it may have on the governing board. The continued existence of SEOVEC is not dependent on the Educational Service Center's continued participation and no equity interest exists. SEOVEC has 28 participants consisting of 25 school districts and 3 educational service centers. During fiscal year 2009, the Educational Service Center paid $6,496 to SEOVEC. To obtain financial information write to the Southeast Ohio Voluntary Educational Consortium, Robert Lindsey, CEO/Director, 221 North Columbus Road, Athens, Ohio 45701.

B. Tri-County Career Center

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

C. Mid-East Career and Technology Centers

The Mid-East Career and Technology Centers is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of thirteen representatives from the various City, County, and Educational Service Center Boards within Perry, Guernsey, and Muskingum Counties. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Mid-East Career and Technology Centers, Richard White, Treasurer/CFO, 400 Richards Road, Zanesville, Ohio, 43701.

D. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools consists of over one hundred school districts and educational service centers in southeastern Ohio. The Coalition is operated by a fourteen member Board which consists of one superintendent from each County elected by the school districts and educational service centers within that County. The Coalition provides various services for school district and educational service center administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for member personnel. The Coalition is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Coalition. The Educational Service Center paid the Coalition of Rural and Appalachian Schools $705 for services provided during the year.

Note 14 - Insurance Purchasing Pools

A. Ohio School Boards Association Workers' Compensation Group Rating Program

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

B. Ohio School Plan

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

Note 15 - Contingencies

A. Grants

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

B. Litigation

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

Note 16 – Interfund Transactions

Interfund Advances

Interfund balances at June 30, 2009, which are expected to be repaid during fiscal year 2010, are as follows:

Major Funds:	Receivables	Payables
General Fund	$ 21,449	$ -
Miscellaneous Federal Grants Fund	-	21,449
Total Major Funds	21,449	21,449
Total All Funds	$ 21,449	$ 21,449

The General Fund made advances to another fund of the Educational Service Center in anticipation of grant monies to be received by that fund.

Note 17 – Accountability

At June 30, 2009, the General Fund, and the Public Preschool, Miscellaneous Federal Grants, and ABLE Special Revenue Funds had deficit fund balances of $281,185, $55,921, $150,184, and $475 respectively, which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 18 – Going Concern

At June 30, 2009, the Educational Service Center is continuing to work with other Educational Service Centers in an attempt to merge given the loss of Northern Local School District at the end of fiscal year 2010.

Perry-Hocking Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Budget Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2009

	Budget Amounts			Variance With
	Original	Final	Actual	Final Budget Over/(Under)
REVENUES:				
Intergovernmental	$ 728,610	$ 728,610	$ 728,183	$ (427)
Interest	20,000	10,000	9,010	(990)
Tuition and Fees	3,399,196	4,044,954	4,007,799	(37,155)
Miscellaneous	-	-	1,008	1,008
Total Revenues	4,147,806	4,783,564	4,746,000	(37,564)
EXPENDITURES:				
Current:				
Instruction:				
Regular	585,282	601,812	584,515	17,297
Special	830,980	842,325	829,891	12,434
Support Services:				
Pupils	799,488	817,430	798,441	18,989
Instructional Staff	1,651,837	1,652,948	1,632,196	20,752
Board of Education	45,240	45,180	45,181	(1)
Administration	550,510	558,908	548,202	10,706
Fiscal	181,245	199,917	181,008	18,909
Operation and Maintenance of Plant	109,432	114,377	109,289	5,088
Pupil Transportation	1,953	1,950	1,950	-
Central	113,121	115,153	112,973	2,180
Capital Outlay	37,357	37,357	-	37,357
Total Expenditures	4,906,445	4,987,357	4,843,646	143,711
Net Change in Fund Balance	(758,639)	(203,793)	(97,646)	106,147
Fund Balance at Beginning of Year	410,174	410,174	410,174	-
Prior Year Encumbrances Appropriated	19,096	19,096	19,096	-
Fund Balance at End of Year	$ (329,369)	$ 225,477	$ 331,624	$ 106,147

See accompanying notes to the supplementary information.

Perry-Hocking Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Budget Basis) and Actual
Public School Support Fund
For the Fiscal Year Ended June 30, 2009

	Budget Amounts			
	Original	Final	Actual	Variance With Final Budget Over/(Under)
REVENUES:				
Tuition and Fees	$ -	$ 169,958	$ 171,548	$ 1,590
Gifts and Donations	-	-	1,013	1,013
Miscellaneous	-	-	13,107	13,107
Total Revenues	-	169,958	185,668	15,710
EXPENDITURES:				
Current:				
Instruction:				
Regular	38,991	69,313	17,897	51,416
Other	10	-	39	(39)
Support Services:				
Pupils	13,241	17,000	6,136	10,864
Instructional Staff	43,818	39,216	35,353	3,863
Administration	53,578	54,718	38,696	16,022
Fiscal	932	889	173	716
Operation and Maintenance of Plant	55,568	54,566	38,166	16,400
Pupil Transportation	720	227	895	(668)
Operation of Non-Instructional Services	28,136	22,750	21,865	885
Total Expenditures	234,994	258,679	159,220	99,459
Net Change in Fund Balance	(234,994)	(88,721)	26,448	115,169
Fund Balance at Beginning of Year	52,852	52,852	52,852	-
Prior Year Encumbrances Appropriated	36,062	36,062	36,062	-
Fund Balance at End of Year	$ (146,080)	$ 193	$ 115,362	$ 115,169

See accompanying notes to the supplementary information.

Perry-Hocking Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Budget Basis) and Actual
Public Preschool Fund
For the Fiscal Year Ended June 30, 2009

	Budget Amounts			Variance With
	Original	Final	Actual	Final Budget Over/(Under)
REVENUES:				
Intergovernmental	$ 866,037	$ 764,760	$ 664,359	$ (100,401)
Miscellaneous	-	-	1,551	1,551
Total Revenues	866,037	764,760	665,910	(98,850)
EXPENDITURES:				
Current:				
Instruction:				
Regular	379,322	353,705	305,802	47,903
Support Services:				
Pupils	66,331	67,182	63,857	3,325
Instructional Staff	196,637	180,364	158,105	22,259
Administration	77,947	74,125	78,834	(4,709)
Fiscal	27,795	26,349	22,248	4,101
Operation and Maintenance of Plant	107,959	105,346	104,018	1,328
Pupil Transportation	27,220	8,948	4,194	4,754
Central	1,000	1,000	-	1,000
Capital Outlay	13,324	13,324	-	13,324
Total Expenditures	897,535	830,343	737,058	93,285
Net Change in Fund Balance	(31,498)	(65,583)	(71,148)	(5,565)
Fund Balance at Beginning of Year	(5,887)	(5,887)	(5,887)	-
Prior Year Encumbrances Appropriated	69,910	69,910	69,910	-
Fund Balance at End of Year	$ 32,525	$ (1,560)	$ (7,125)	$ (5,565)

See accompanying notes to the supplementary information.

Perry-Hocking Educational Service Center

Schedule of Revenues, Expenditures and Changes

In Fund Balance - Budget (Budget Basis) and Actual

Miscellaneous Federal Grant Fund

For the Fiscal Year Ended June 30, 2009

	Budget Amounts			Variance With
	Original	Final	Actual	Final Budget Over/(Under)
REVENUES:				
Intergovernmental	$ 994,941	$ 895,726	$ 477,438	$ (418,288)
Total Revenues	994,941	895,726	477,438	(418,288)
EXPENDITURES:				
Current:				
Instruction:				
Regular	44,563	34,373	30,365	4,008
Other	43,885	41,676	40,100	1,576
Support Services:				
Pupils	101,555	91,504	91,482	22
Instructional Staff	404,835	322,250	303,063	19,187
Administration	345,039	295,928	288,772	7,156
Fiscal	51,169	34,820	34,295	525
Pupil Transportation	15,299	10,050	8,878	1,172
Central	73,686	66,538	66,522	16
Operation of Non-Instructional Services	227	227	-	227
Total Expenditures	1,080,258	897,366	863,477	33,889
Net Change in Fund Balance	(85,317)	(1,640)	(386,039)	(384,399)
Fund Balance at Beginning of Year	(159,039)	(159,039)	(159,039)	-
Prior Year Encumbrances Appropriated	162,190	162,190	162,190	-
Fund Balance at End of Year	$ (82,166)	$ 1,511	$ (382,888)	$ (384,399)

See accompanying notes to the supplementary information.

Note 1 – Budgetary Process

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes.

The Educational Service Center's Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary schedules reflect the amounts of estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary schedules reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Board.

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

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary schedules reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary schedules represent the final appropriation amounts passed by the Board during the fiscal year.

Note 2 – Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting (GAAP), the budgetary basis is based upon the accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Budget Basis) and Actual - for the General Fund, Public School Support, Public Preschool, and the Miscellaneous Federal Grants Special Revenue Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

Note 2 – Budgetary Basis of Accounting *(Continued)*

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis schedules for the General Fund, Public School Support, Public Preschool, and the Miscellaneous Federal Grants Special Revenue Funds.

Net Changes in Fund Balances

	General	Public School Support	Public Preschool	Miscellaneous Federal Grants
GAAP Basis	$ (175,691)	$ 42,674	$ (1,155)	$ (99,150)
Adjustments:				
Revenue Accruals	120,352	-	18,325	(15,890)
Expenditure Accruals	(31,423)	(14,339)	(47,336)	90,440
Encumbrances	(10,884)	(1,887)	(40,982)	(361,439)
Budget Basis	$ (97,646)	$ 26,448	$ (71,148)	$ (386,039)

Perry-Hocking Educational Service Center
Perry County
Schedule of Federal Awards Receipts and Expenditures
For the Year Ended June 30, 2009

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
United States Department of Education				
Direct Award				
Fund for the Improvement of Education	NA	84.215	$ 291,548	$ 291,548
Passed through Ohio Department of Education				
Adult Education State Grant Program	ABS1	84.002	65,566	64,209
Improving Teacher Quality State Grants	TRS1	84.367	10,000	-
Safe and Drug Free Schools and Communities State Grants	DRS1	84.186	32,343	32,343
School Improvement Grants	3AN0	84.377	2,000	2,000
Special Education Preschool Grants	PGS1	84.173	25,850	26,482
Twenty-First Century Community Learning Centers	T1S1	84.287	152,558	149,655
Total United States Department of Education			579,865	566,237
United States Department of Health and Human Services				
Passed through Administration for Children and Families, Department of Health and Human Services				
Temporary Assistance for Needy Families	NA	93.558	31,332	58,829
Total United States Department of Health and Human Services			31,332	58,829
Total Federal Financial Assistance			$ 611,197	$ 625,066

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Perry Hocking Educational Service Center (the Center) as of and for the year ended June 30, 2009 which collectively comprise the Center's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Governmental Auditing Standards.*.

Internal Control Over Financial Reporting

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, resulting in more than a remote likelihood that the Center's internal control will not prevent a material financial statement misstatement.

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

Compliance and Other Matters

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

We intend this report solely for the information and use of the management, members of the Board, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

Balestra, Harr & Scherer, CPAs, Inc.
January 29, 2010

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

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

Compliance

We have audited the compliance of Perry Hocking Educational Service Center, Perry County, Ohio (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

Internal Control Over Compliance (Continued)

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement 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 the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Center's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
January 28, 2010

PERRY- HOCKING EDUCATIONAL SERVICE CENTER
PERRY COUNTY
JUNE 30, 2009

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505

1. SUMMARY OF AUDITOR'S RESULTS

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

PERRY-HOCKING EDUCATIONAL SERVICE CENTER
Schedule of Findings
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2009

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

Mary Taylor, CPA
Auditor of State

PERRY-HOCKING EDUCATIONAL SERVICE CENTER

PERRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 18, 2010

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