



Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

Table of Contents

Title	Page
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	10
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	12
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Fiduciary Assets and Liabilities	14
Notes to the Basic Financial Statements	15
Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....	30
Notes to Supplemental Information.....	31
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	33
Schedule of Prior Audit Findings	35

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hancock County Educational Service Center, (the Educational Service Center), as of and for the year ended June 30, 2010, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Hancock County Educational Service Center, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

We conducted our audit to opine on the financial statements that collectively comprise the Educational Service Center's basic financial statements taken as a whole. The general fund schedule of revenue, expenditures and changes in fund balance – budget and actual provides additional information and is not a required part of the basic financial statements. The general fund schedule of revenue, expenditures and changes in fund balance – budget and actual is management's responsibility, and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State

February 22, 2011

Hancock County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

The discussion and analysis of Hancock County Educational Service Center's (the Educational Service Center) financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2010. 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 basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

Highlights

Highlights for fiscal year 2010 are as follows:

There was a decrease in net assets for fiscal year 2010 of \$113,058, which resulted in the Educational Service Center having deficit net assets as fiscal year end. While the change in both revenues and expenses was only 2 percent, the need for cash carryover spending resulted in much of this decrease. Another contributing factor was increases to the liabilities related to accrued wages and compensated absences (estimate of future severance payments). The Educational Service Center employs a substantial number of employees whose employment is dependent on various service contracts with school districts.

Program specific revenues, in the form of charges for services and operating grants accounted for \$4,903,948, or 92 percent of total revenues.

Using the Basic Financial Statements

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

The statement of net assets and the statement of activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for spending in the near future. The fund financial statements also look at the Educational Service Center's most significant funds, with all other nonmajor funds presented in total in a single column. For Hancock County Educational Service Center, the General Fund is the most significant fund.

Reporting the Educational Service Center as a Whole

The statement of net assets and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2010. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Educational Service Center as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include facility conditions, required educational programs, and other factors.

Hancock County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

In the statement of net assets and the statement of activities, all of the Educational Service Center's activities are reported as governmental activities, including instruction, support services, non-instructional services, and intergovernmental activities.

Reporting the Educational Service Center's Most Significant Funds

Fund financial statements provide detailed information about the Educational Service Center's major funds. While the Educational Service Center uses many funds to account for its financial transactions, the fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only major fund is the General Fund.

Governmental Funds - All of the Educational Service Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Educational Service Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the Educational Service Center's programs. These funds use the accrual basis of accounting.

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net assets for fiscal year 2010 and fiscal year 2009.

	Table 1 Net Assets		
	2010	Governmental Activities 2009	Change
<u>Assets:</u>			
Current and Other Assets	\$992,309	\$1,053,720	(\$61,411)
Capital Assets, Net	49,862	54,191	(4,329)
Total Assets	<u>1,042,171</u>	<u>1,107,911</u>	<u>(65,740)</u>
<u>Liabilities:</u>			
Current and Other Liabilities	\$673,330	\$639,120	(\$34,210)
Long-Term Liabilities	380,781	367,673	(13,108)
Total Liabilities	<u>1,054,111</u>	<u>1,006,793</u>	<u>(47,318)</u>
<u>Net Assets:</u>			
Invested in Capital Assets	49,862	54,191	(4,329)
Restricted	13,050	35,380	(22,330)
Unrestricted (Deficit)	(74,852)	11,547	(86,399)
Total Net Assets (Deficit)	<u>(\$11,940)</u>	<u>\$101,118</u>	<u>(\$113,058)</u>

Hancock County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

While the above table denotes some differences, the changes in total assets and total liabilities were not overly significant; however, there was a sizable change in total net assets due largely to cash carryover spending and liabilities related to accrued wages and compensated absences as noted earlier.

Table 2 reflects the change in net assets for fiscal year 2010 and fiscal year 2009.

Table 2
Change in Net Assets

	Governmental Activities		Change
	2010	2009	
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$4,318,352	\$4,140,463	\$177,889
Operating Grants and Contributions	585,596	666,005	(80,409)
Total Program Revenues	<u>4,903,948</u>	<u>4,806,468</u>	<u>97,480</u>
General Revenues			
Grants and Entitlements	355,424	368,110	(12,686)
Interest	3,773	8,614	(4,841)
Miscellaneous	45,733	20,948	24,785
Total General Revenues	<u>404,930</u>	<u>397,672</u>	<u>7,258</u>
Total Revenues	<u>5,308,878</u>	<u>5,204,140</u>	<u>104,738</u>
<u>Expenses:</u>			
Instruction:			
Regular	113,119	123,718	10,599
Special	1,382,898	1,440,014	57,116
Support Services:			
Pupils	1,125,281	1,092,508	(32,773)
Instructional Staff	1,735,063	1,995,292	260,229
Board of Education	52,168	35,418	(16,750)
Administration	600,435	451,983	(148,452)
Fiscal	218,383	225,399	7,016
Operation and Maintenance of Plant	79,881	72,556	(7,325)
Pupil Transportation	95,097	89,731	(5,366)
Central	15,615	15,023	(592)
Non-Instructional Services	3,996	3,151	(845)
Total Expenses	<u>5,421,936</u>	<u>5,544,793</u>	<u>122,857</u>
Decrease in Net Assets	<u>(113,058)</u>	<u>(340,653)</u>	<u>227,595</u>
Net Assets at Beginning of Year	<u>101,118</u>	<u>441,771</u>	<u>(340,653)</u>
Net Assets (Deficit) at End of Year	<u>(\$11,940)</u>	<u>\$101,118</u>	<u>(\$113,058)</u>

Program revenues were 92 percent of total revenues for fiscal year 2010 and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 81 percent of total revenues. The services being charged to the school districts involve various instruction and support services. The Educational Service Center primarily provides services to seven local school districts and one city school district in Northwest Ohio.

Total revenues increased 2 percent from the prior fiscal year and total expenses decreased 2 percent; neither of these changes was significant. Note, however, that expenses were greater than revenues for the fiscal year; the resulting cash carryover spending led to the decrease in total net assets.

Hancock County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the costs of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Instruction:				
Regular	\$113,119	\$123,718	(\$847,817)	(\$761,173)
Special	1,382,898	1,440,014	(2,092,216)	(2,106,439)
Support Services:				
Pupils	\$1,125,281	\$1,092,508	\$1,109,579	\$1,075,877
Instructional Staff	1,735,063	1,995,292	1,735,063	1,995,292
Board of Education	52,168	35,418	52,168	35,418
Administration	600,435	451,983	314,132	246,177
Fiscal	218,383	225,399	218,383	225,399
Operation and Maintenance of Plant	79,881	72,556	79,881	72,556
Pupil Transportation	95,097	89,731	(62,394)	(40,842)
Central	15,615	15,023	13,329	333
Non-Instructional Services	3,996	3,151	(2,120)	(4,273)
Total Expenses	<u>\$5,421,936</u>	<u>\$5,544,793</u>	<u>\$517,988</u>	<u>\$738,325</u>

As indicated previously, a significant portion of the Educational Service Center's program costs are provided for through program revenues, that being charges for programs provided by the Educational Service Center to school districts served by the Educational Service Center and from various grant resources.

Expenses for paraprofessionals (teacher aides) are included in the instructional staff support services program. In contrast, instructional programs are charged to school districts and recorded by the Educational Service Center as charges for services revenue for activities related to regular and special instruction. Therefore, the instruction programs appear to be over funded while the instructional staff support services program seems to be quite under funded. Some expenses within the pupils support services program are also charged to school districts with the revenue recorded by the Educational Service Center as charges for services for activities related to special instruction.

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund had a sizable decrease in fund balance from the prior year as cash carryover spending became a necessity due to economic and funding conditions.

Capital Assets

At June 30, 2010, the Educational Service Center had \$49,862 invested in capital assets (net of accumulated depreciation). Additions and disposals in fiscal year 2010 were very minimal. For further information regarding the Educational Service Center's capital assets, refer to Note 8 to the basic financial statements.

Hancock County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Current Issues

Due to current economic conditions, our State foundation revenues are expected to be reduced again by 10-11 percent for fiscal year 2011, with an expectation of further reductions in fiscal year 2012. Grant funding is also expected to decrease. Service contract revenue may increase or decrease depending on the level of contracted service requests from the local school districts served by the Educational Service Center.

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 reflect the Educational Service Center's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Greg Spiess, Hancock County Educational Service Center, 7746 County Road 140 Findlay, Ohio 45840-1978.

Hancock County Educational Service Center
Statement of Net Assets
June 30, 2010

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$926,362
Intergovernmental Receivable	65,947
Depreciable Capital Assets, Net	49,862
Total Assets	1,042,171
 <u>Liabilities:</u>	
Accounts Payable	11,907
Accrued Wages and Benefits Payable	495,325
Matured Compensated Absences Payable	25,059
Intergovernmental Payable	141,039
<u>Long-Term Liabilities:</u>	
Due Within One Year	66,673
Due in More Than One Year	314,108
Total Liabilities	1,054,111
 <u>Net Assets:</u>	
Invested in Capital Assets	49,862
<u>Restricted For:</u>	
Other Purposes	13,050
Unrestricted	(74,852)
Total Net Assets (Deficit)	(\$11,940)

See Accompanying Notes to Basic Financial Statements

Hancock County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2010

	Program Revenues		Net (Expense) Revenue and Change in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$113,119	\$839,428	\$121,508	\$847,817
Special	1,382,898	3,020,747	454,367	2,092,216
Support Services:				
Pupils	1,125,281	12,702	3,000	(1,109,579)
Instructional Staff	1,735,063			(1,735,063)
Board of Education	52,168			(52,168)
Administration	600,435	286,303		(314,132)
Fiscal	218,383			(218,383)
Operation and Maintenance of Plant	79,881			(79,881)
Pupil Transportation	95,097	157,491		62,394
Central	15,615		2,286	(13,329)
Non-Instructional Services	3,996	1,681	4,435	2,120
Total Governmental Activities	<u>\$5,421,936</u>	<u>\$4,318,352</u>	<u>\$585,596</u>	<u>(517,988)</u>
<u>General Revenues:</u>				
Grants and Entitlements not Restricted to Specific Programs				355,424
Interest				3,773
Miscellaneous				45,733
Total General Revenues				<u>404,930</u>
Change in Net Assets				(113,058)
Net Assets at Beginning of Year				<u>101,118</u>
Net Assets at End of Year (Deficit)				<u>(\$11,940)</u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
 Balance Sheet
 Governmental Funds
 June 30, 2010

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$912,069	\$14,293	\$926,362
Intergovernmental Receivable	62,244	3,703	65,947
Total Assets	\$974,313	\$17,996	\$992,309
 <u>Liabilities and Fund Balances:</u>			
<u>Liabilities</u>			
Accounts Payable	\$11,839	\$68	\$11,907
Accrued Wages and Benefits Payable	487,376	7,949	495,325
Matured Compensated Absences Payable	25,059		25,059
Intergovernmental Payable	139,809	1,230	141,039
Total Liabilities	664,083	9,247	673,330
 <u>Fund Balances:</u>			
Reserved for Encumbrances	4,695	1,527	6,222
Unreserved, Reported in:			
General Fund	305,535		305,535
Special Revenue Funds		7,222	7,222
Total Fund Balances	310,230	8,749	318,979
Total Liabilities and Fund Balances	\$974,313	\$17,996	\$992,309

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2010

Total Governmental Fund Balances	\$318,979
Amounts reported for governmental activities on the statement of net assets are different because of the following:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	49,862
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(380,781)
Net Assets of Governmental Activities	<u><u>(\$11,940)</u></u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Intergovernmental	\$813,072	\$127,695	\$940,767
Interest	3,773		3,773
Tuition and Fees	1,830,565	6,458	1,837,023
Customer Services	2,481,329		2,481,329
Miscellaneous	45,733	253	45,986
Total Revenues	<u>5,174,472</u>	<u>134,406</u>	<u>5,308,878</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	69,834	37,267	107,101
Special	1,308,781	6,102	1,314,883
Support Services:			
Pupils	1,065,772		1,065,772
Instructional Staff	1,728,669	114,153	1,842,822
Board of Education	52,168		52,168
Administration	600,968	800	601,768
Fiscal	227,251		227,251
Operation and Maintenance of Plant	82,915		82,915
Pupil Transportation	89,779	429	90,208
Central	13,329	2,286	15,615
Non-Instructional Services	3,996		3,996
Total Expenditures	<u>5,243,462</u>	<u>161,037</u>	<u>5,404,499</u>
Changes in Fund Balances	(68,990)	(26,631)	(95,621)
Fund Balances at Beginning of Year	<u>379,220</u>	<u>35,380</u>	<u>414,600</u>
Fund Balances at End of Year	<u>\$310,230</u>	<u>\$8,749</u>	<u>\$318,979</u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2010

Changes in Fund Balances - Total Governmental Funds (\$95,621)

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

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current fiscal year:

Capital Outlay	5,793	
Depreciation	<u>(9,462)</u>	
		(3,669)

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of resulting in a loss on disposal of capital assets on the statement of activities. (660)

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (13,108)

Change in Net Assets of Governmental Activities (\$113,058)

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2010

Assets:

Equity in Pooled Cash and Cash Equivalents	<u>\$103,930</u>
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Liabilities:

Undistributed Assets	\$102,762
Due to Students	<u>1,168</u>

Total Liabilities	<u>\$103,930</u>
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See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 1 - Reporting Entity

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

The Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has sixteen administrators, forty-seven classified employees, and thirty-eight certified teaching personnel that provide services to the local and city school districts.

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

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

The Educational Service Center participates in three jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Schools of Ohio Risk Sharing Authority, Hancock County Schools Health Benefit Fund, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 14 and 15 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

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.

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (continued)

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. These statements usually distinguish between those activities of the Educational Service Center that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the Educational Service Center has no 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 requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center did not have any trust funds in fiscal year 2010. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for non-instructional faculty related activities, student-managed activities, and monies held for the Family and Children First Council.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Deferred Revenues

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

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

Expenses/Expenditures

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

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

E. Cash and Investments

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

During fiscal year 2010, investments consisted of STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2010.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2010 was \$3,773, which includes \$631 assigned from other Educational Service Center funds.

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (continued)

F. Capital Assets

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

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Educational Service Center maintains a capitalization threshold of seven hundred fifty dollars. The Educational Service Center does not have any infrastructure. Improvements are capitalized.

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

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

G. 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. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent 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 employees who have accumulated unpaid leave are paid.

H. Accrued Liabilities and Long-Term Obligations

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets, invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted net assets represent federal and state grants. The Educational Service Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. Fund Balance Reserves

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

K. Estimates

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

Note 3 - Change in Accounting Principles

For fiscal year 2010, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in the economic resources measurement focus financial statements. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements and the framework for selecting those principles. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' (AICPA) auditing literature into the GASB's accounting and financial reporting literature. This guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any changes to the financial statements.

Note 3 - Change in Accounting Principles (continued)

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and the participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any changes to the financial statements.

Note 4 - Accountability

At June 30, 2010, the Alternative School Program and Miscellaneous Federal Grants special revenue funds had deficit fund balances, in the amount of \$4,282 and \$19, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation,

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 5 - Deposits and Investments (continued)

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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

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.

Investments

As of June 30, 2010, the Educational Service Center had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
STAR Ohio	\$673,942	56 days average

STAR Ohio carries a rating of AAA by Standard and Poor's. The Educational Service Center has no investment policy dealing with interest rate or credit risk beyond the requirements of State statute. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Note 6 - State Funding

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's school districts based on each school district's total student count. The State Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the school districts agree to the services and the apportionment of the costs.

The Educational Service Center also receives funding from the State Department of Education, in the amount of \$37 multiplied by the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Educational Service Center. This amount is paid from State resources. The State Department of

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 6 - State Funding (continued)

Education also deducts from the State Foundation Program settlement of each of the school districts served by the Educational Service Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Educational Service Center.

The Educational Service Center may contract with local, city, exempted village, joint vocational, or cooperative education school districts to provide special education and related services or career-technical education services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

Note 7 - Receivables

Receivables at June 30, 2010, consisted intergovernmental receivables. All receivables are considered collectible in full and within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Various School Districts	\$62,244
Other Governmental Funds	
Miscellaneous State Grants	3,703
Total Intergovernmental Receivables	\$65,947

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance at 6/30/09	Additions	Reductions	Balance at 6/30/10
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	\$61,711			\$61,711
Furniture, Fixtures, and Equipment	215,648	\$5,793	(\$11,945)	209,496
Vehicles	13,500			13,500
Total Depreciable Capital Assets	290,859	5,793	(11,945)	284,707
Less Accumulated Depreciation				
Buildings and Building Improvements	(41,563)	(995)		(42,558)
Furniture, Fixtures, and Equipment	(194,244)	(7,605)	11,285	(190,564)
Vehicles	(861)	(862)		(1,723)
Total Accumulated Depreciation	(236,668)	(9,462)	11,285	(234,845)
Governmental Activities Capital Assets, Net	\$54,191	(\$3,669)	(\$660)	\$49,862

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 8 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,934
Special	2,203
Support Services:	
Pupils	1,632
Instructional Staff	1,681
Administration	226
Fiscal	1,786
Total Depreciation Expense	<u>\$9,462</u>

Note 9 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by the Schools of Ohio Risk Sharing Authority

General Liability	
Per Occurrence	\$3,000,000
Total per Year	5,000,000
Auto Coverage	
Liability	3,000,000
Commercial Property	371,880

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

For fiscal year 2010, the Educational Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant.

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

Note 10 - Defined Benefit Pension Plans

A. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the STRS Ohio Board upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 was \$281,516, \$372,991, and \$330,501 respectively; 81 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DCP and CP for fiscal year 2010 were \$19,630 made by the Educational Service Center and \$14,022 made by the plan members.

B. School Employees Retirement System

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

Note 10 - Defined Benefit Pension Plans (continued)

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 was \$145,049, \$132,328, and \$120,555, respectively; 85 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2010, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 11 - Postemployment Benefits

A. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Health Care Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2010, 2009, and 2008 was \$23,165, \$28,692, and \$25,423 respectively; 81 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. School Employees Retirement System

Plan Description - The School District contributes to two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 11 - Postemployment Benefits (continued)

Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For fiscal year 2010, .46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2010, the surcharge amount was \$23,127.

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

The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2010, 2009, and 2008 was \$5,221, \$60,559, and \$55,013 respectively; 85 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2010, this actuarially required allocation was .76 percent of covered payroll. The Educational Service Center's contribution for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 was \$8,626, \$10,918, and \$8,686 respectively; 85 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 12 - Other Employee Benefits

A. Compensated Absences

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

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

B. Health Care Benefits

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 13 - Long-Term Obligations

Changes in the Educational Service Center's long-term obligations during fiscal year 2010 were as follows:

	<u>Balance at 6/30/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/10</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Compensated Absences	\$367,673	\$13,108		\$380,781	\$66,673

Compensated absences will be paid from the General Fund.

Note 14 - Jointly Governed Organizations

A. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804. During fiscal year 2010, the School District paid \$6,065 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Career and Technology Center

The Millstream Career and Technology Center is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Treasurers from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, 1219 West Main Cross, Suite 101, Findlay, Ohio 45840-3377.

C. Hancock County Local Professional Development Committee

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

Note 15 - Insurance Pools

A. Schools of Ohio Risk Sharing Authority

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

B. Hancock County Schools Health Benefit Fund

The Hancock County Schools Health Benefit Fund is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Plan is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participants' superintendent is appointed to an Administrative Committee which advises the Trustee, Huntington, concerning aspects of the administration of the Plan.

C. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Notes 16 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2010.

B. Litigation

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

Hancock County Educational Service Center
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$813,072	
Interest			3,750	
Tuition and Fees			1,894,148	
Customer Services			2,445,256	
Miscellaneous			36,541	
Total Revenues			5,192,767	
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	74,093	74,093	68,884	5,209
Special	1,308,728	1,333,540	1,321,669	11,871
Support Services:				
Pupils	1,098,219	1,114,164	1,066,641	47,523
Instructional Staff	1,719,216	1,764,649	1,689,486	75,163
Board of Education	47,925	53,925	44,228	9,697
Administration	585,772	585,772	571,221	14,551
Fiscal	219,590	225,590	221,558	4,032
Operation and Maintenance of Plant	86,960	86,960	82,578	4,382
Pupil Transportation	89,395	89,395	87,159	2,236
Central	13,000	16,100	11,221	4,879
Non-Instructional Services	9,011	9,011	3,996	5,015
Total Expenditures	5,251,909	5,353,199	5,168,641	184,558
Excess of Revenues Over (Under) Expenditures	(5,251,909)	(5,353,199)	24,126	5,377,325
<u>Other Financing Sources:</u>				
Refund of Prior Year Expenditures			17,686	17,686
Changes in Fund Balance	(5,251,909)	(5,353,199)	41,812	5,395,011
Fund Balance at Beginning of Year	847,260	847,260	847,260	
Prior Year Encumbrances Appropriated	12,416	12,416	12,416	
Fund Balance at End of Year			\$901,488	\$5,395,011

See Accompanying Notes to the Supplemental Section

Hancock County Educational Service Center
Notes to the Supplemental Section
For the Fiscal Year Ended June 30, 2010

Note 1 - Budgetary Process

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The Educational Service Center's Board does not budget for resources estimated to be received during the fiscal year.

The Educational Service Center's Board adopts an annual appropriations 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 and function level within the General Fund and the fund level for all other funds. The Treasurer has been authorized to allocate appropriations to the object level in the General Fund and to the function and object level within all other 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 appropriations 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 principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

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

Hancock County Educational Service Center
Notes to the Supplemental Section
For the Fiscal Year Ended June 30, 2010

Note 2 - Budgetary Basis of Accounting (continued)

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

	General Fund
GAAP Basis	(\$68,990)
<u>Increase (Decrease) Due to:</u>	
Revenue Accruals:	
Accrued FY 2009, Received in Cash FY 2010	98,248
Accrued FY 2010, Not Yet Received in Cash	(62,244)
Expenditure Accruals:	
Accrued FY 2009, Paid in Cash FY 2010	(630,209)
Accrued FY 2010, Not Yet Paid in Cash	664,083
Unrecorded Cash Activity 2010	(23)
Prepaid Items	51,505
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(10,558)
Budget Basis	\$41,812



Dave Yost • Auditor of State

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

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

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hancock County Education Service Center, (the Education Service Center) as of and for the year ended June 30, 2010, which collectively comprise the Education Service Center's basic financial statements and have issued our report thereon dated February 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Education Service Center's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

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

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

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

Dave Yost
Auditor of State

February 22, 2011

**EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Monitoring of Financial Activity	Yes	

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HANCOCK COUNTY EDUCATIONAL SERVICE CENTER

HANCOCK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 15, 2011