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STATE OF OHIO



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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

Hancock County Educational Service Center
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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hancock County Educational Service Center (the ESC) as of and for the year ended June 30, 2002, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Hancock County Educational Service Center, as of June 30, 2002, and the respective budgetary comparison for the General and Title VI-B Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2002 on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Educational Service Center, taken as a whole. The accompanying schedule of federal awards receipts and expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long, horizontal stroke extending to the right.

Jim Petro
Auditor of State

December 16, 2002

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Hancock County Educational Service Center
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2002

The discussion and analysis of the Hancock County Educational Service Center's financial performance provides an overall review of our Educational Service Center's financial activities for the fiscal year ended June 30, 2002. The intent of this discussion and analysis is to look at the financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for 2002 are as follows:

In total, net assets decreased \$24 thousand, which represents a 16 percent decrease from fiscal year 2001.

Total assets decreased \$198 thousand primarily from a decrease in cash and cash equivalents at the end of the fiscal year.

General revenues accounted for \$526 thousand in revenue or 14 percent of all revenues. Program specific revenues, in the form of charges for services and operating grants and contributions, accounted for \$3,116 thousand or 86 percent of total revenues of \$3,642 thousand.

The Educational Service Center had \$3,666 thousand in total expenses; \$3,116 thousand of which were offset by program specific charges for services and operating grants and contributions.

Using the Basic Financial Statements

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

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

Reporting the Hancock County 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 2002. 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

Hancock County Educational Service Center
 Management's Discussion and Analysis
 For Fiscal Year Ended June 30, 2002
 (Continued)

Educational Service Center as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors. Factors can be financial while other factors will be nonfinancial. Nonfinancial factors include 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, and non-instructional services.

Reporting the Educational Service Center's Most Significant Funds

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

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

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

The Educational Service Center as a Whole

Table 1
 Net Assets
 (In Thousands)

	Governmental Activities	
	2002	2001
<u>Assets:</u>		
Current and Other Assets	\$458	\$632
Capital Assets, Net	69	93
Total Assets	527	725
<u>Liabilities:</u>		
Current and Other Liabilities	271	449
Long-Term Liabilities	133	129
Total Liabilities	404	578

Hancock County Educational Service Center
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2002
(Continued)

Table 1
Net Assets
(In Thousands)
(continued)

	Governmental Activities	
	2002	2001
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	\$69	\$93
Restricted	121	90
Unrestricted (Deficit)	(67)	(36)
Total Net Assets	\$123	\$147

Table 1 is a comparison of governmental activities for fiscal years 2002 and 2001. Total assets decreased \$198 thousand, or 27 percent. Total liabilities decreased \$174 thousand, or 30 percent. Total net assets decreased \$24 thousand, or 16 percent. The decrease is due to the fact that in fiscal year 2002 the State Teachers Retirement System required the Educational Service Center to pay their portion of the retirement benefit at the end of each pay period. In prior fiscal years, the Educational Service Center would pay the retirement benefit in one lump sum payment after the fiscal year was completed. In other words, during fiscal year 2002 the Educational Service Center paid two years of retirement benefits.

Table 2 reflects the changes in net assets for fiscal year 2002 and 2001. Total revenues increased \$107 thousand, or 3 percent. Program expenses in total increased \$202 thousand, or 6 percent. Program expenses exceeded revenues by \$24 thousand for fiscal year 2002. Investment earnings decreased for the year, which was a result of decreased interest rates.

Table 2
Change in Net Assets
(In Thousands)

	Governmental Activities 2002	Governmental Activities 2001
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$1,590	\$1,440
Operating Grants and Contributions	1,526	1,520
General Revenues:		
Grants and Entitlements	499	519
Interest	23	46
Gifts and Donations	1	0
Miscellaneous	3	10
Total Revenues	3,642	3,535

Hancock County Educational Service Center
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2002
(Continued)

Table 2
Change in Net Assets
(In Thousands)
(continued)

	Governmental Activities 2002	Governmental Activities 2001
<u>Program Expenses</u>		
Instruction:		
Regular	\$312	\$348
Special	717	667
Support Services:		
Pupils	675	591
Instructional Staff	1,191	1,061
Board of Education	17	12
Administration	211	203
Fiscal	142	132
Business	8	7
Operation and Maintenance of Plant	10	11
Pupil Transportation	2	2
Central	17	1
Non-Instructional Services	34	88
Intergovernmental	330	321
Interest and Fiscal Charges	0	1
Loss on Disposal of Capital Assets	0	19
Total Expenses	<u>3,666</u>	<u>3,464</u>
Increase (Decrease) in Net Assets	<u>(\$24)</u>	<u>\$71</u>

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

Hancock County Educational Service Center
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2002
(Continued)

Table 3
Cost of Services
(In Thousands)

	Total Cost of Services 2002	Net Cost of Services 2002	Total Cost of Services 2001	Net Cost of Services 2001
Instruction:				
Regular	\$312	\$87	\$348	\$3
Special	717	(1,114)	667	(1,050)
Support Services:				
Pupils	675	568	592	503
Instructional Staff	1,191	776	1,060	756
Board of Education	17	17	12	13
Administration	211	211	203	202
Fiscal	142	85	132	68
Business	8	8	7	7
Operation and Maintenance of Plant	10	4	11	3
Pupil Transportation	2	2	2	2
Central	17	2	1	(3)
Non-Instructional Services	34	(30)	88	4
Intergovernmental	330	(67)	321	(24)
Interest and Fiscal Charges	0	0	1	1
Loss on Disposal of Capital Assets	0	0	19	19
Total Expenses	<u>\$3,666</u>	<u>\$549</u>	<u>\$3,464</u>	<u>\$504</u>

A review of Table 3 reflects the net cost of instructional services was (\$1,027) thousand. At first glance, this would indicate the Educational Service Center received resources well in excess of that needed to support the instruction program. However, further review reflects a deficiency in support services of \$1,673. These activities support the Educational Service Center's ability to provide instruction. Under the Educational Service Center's present method of recording program expenses, there is insufficient detail to allocate these expenses against the instruction program and the other activities of the Educational Service Center. The net cost of activities of \$549 thousand, or 15 percent of total expenses, was supported by general revenues.

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Total revenues were \$3,636 thousand and expenditures were \$3,638 thousand, which indicates the Educational Service Center was able to meet current costs.

Hancock County Educational Service Center
 Management's Discussion and Analysis
 For Fiscal Year Ended June 30, 2002
 (Continued)

Budgeting Highlights

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

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

For the General Fund, final budgeted revenues, in the amount of \$2,836 thousand were below the original budgeted revenues, in the amount of \$2,969 thousand. The difference of \$133 thousand is attributed to lower customer services charges to local school districts for special education programs.

Expenditures were budgeted at \$3,316 thousand while actual expenditures were \$3,167 thousand. The difference of \$149 thousand is largely the result of budgeted salaries for twelve months based on current contracts even though the first two months actual expenditures will be at prior year contract amounts.

The Board believes that the General Fund was in good financial position for the fiscal year ended June 30, 2002.

Capital Assets

At the end of fiscal year 2002, the Educational Service Center had \$69 thousand invested in capital assets.

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

	Governmental Activities	
	2002	2001
Buildings	\$10	\$18
Furniture, Fixtures, and Equipment	59	75
Total	\$69	\$93

The decrease in capital assets is due to depreciation. Buildings consist of a modular classroom which is currently located at Vanlue Local School District.

Hancock County Educational Service Center
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2002
(Continued)

For further information regarding the Educational Service Center's capital assets see Note 9 to the basic financial statements.

Debt

The Educational Service Center had no debt in fiscal year 2002.

Current Issues

In prior years, Hancock County provided office space to the Educational Service Center at no cost; however, House Bill 94 now allows counties to charge a fee for rent. As such, Hancock County has requested the Educational Service Center pay annual rent of \$94,000.

The Educational Service Center filed a lawsuit against the Hancock County Commissioners challenging the \$94,000 cost of rent for office space. The Court of Common Pleas of Hancock County issued a judgment on July 19, 2002, stating the cost of rent should be \$22,216 a year. This cost is being phased in over a five year period, with 20 percent, or \$4,443, being charged in the current fiscal year. The cost increases 20 percent per fiscal year until 100 percent is charged to the Educational Service Center in fiscal year 2006. The County Commissioners have appealed the decision; therefore, no rent has been charged to the Educational Service Center.

Contracting the Educational Service Center's Financial Management

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

Hancock County Educational Service Center
Statement of Net Assets
June 30, 2002

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$214,951
Account Receivable	1,681
Intergovernmental Receivable	220,459
Prepaid Items	20,472
Depreciable Capital Assets, Net	69,167
Total Assets	526,730
 <u>Liabilities:</u>	
Accounts Payable	5,874
Accrued Wages and Benefits Payable	227,649
Intergovernmental Payable	37,310
<u>Long-Term Liabilities:</u>	
Due Within One Year	82,747
Due in More Than One Year	50,020
Total Liabilities	403,600
 <u>Net Assets:</u>	
Invested in Capital Assets	69,167
Restricted For Other Purposes	121,152
Unrestricted (Deficit)	(67,189)
Total Net Assets	\$123,130

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2002

	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	\$311,919	\$128,639	\$96,318	(\$86,962)
Special	717,237	1,269,775	561,121	1,113,659
Support Services:				
Pupils	675,300	56,044	50,785	(568,471)
Instructional Staff	1,190,745	56,432	357,920	(776,393)
Board of Education	16,574	0	0	(16,574)
Administration	210,510	0	0	(210,510)
Fiscal	142,031	56,859	0	(85,172)
Business	7,806	0	0	(7,806)
Operation and Maintenance of Plant	9,884	6,127	0	(3,757)
Pupil Transportation	1,535	0	0	(1,535)
Central	17,110	15,067	0	(2,043)
Non-Instructional Services	34,362	948	63,414	30,000
Intergovernmental	330,141	0	396,653	66,512
Total Governmental Activities	<u>\$3,665,154</u>	<u>\$1,589,891</u>	<u>\$1,526,211</u>	<u>(549,052)</u>

General Revenues:

Grants and Entitlements not Restricted to Specific Programs	498,881
Interest	22,867
Gifts and Donations	759
Miscellaneous	2,994
Total General Revenues	<u>525,501</u>
Change in Net Assets	(23,551)
Net Assets Beginning of Year	146,681
Net Assets End of Year	<u>\$123,130</u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2002

	General Fund	Title VI-B Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$155,819	\$20,592	\$38,540	\$214,951
Accounts Receivable	1,681	0	0	1,681
Intergovernmental Receivable	134,198	67,668	18,593	220,459
Prepaid Items	20,391	0	81	20,472
Total Assets	<u>\$312,089</u>	<u>\$88,260</u>	<u>\$57,214</u>	<u>\$457,563</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$5,874	\$0	\$0	\$5,874
Accrued Wages and Benefits Payable	205,279	15,226	7,144	227,649
Intergovernmental Payable	35,358	1,644	308	37,310
Deferred Revenue	23,389	0	13,729	37,118
Total Liabilities	<u>269,900</u>	<u>16,870</u>	<u>21,181</u>	<u>307,951</u>
<u>Fund Balances:</u>				
Reserved for Encumbrances	7,413	0	3,519	10,932
Unreserved, Reported in:				
General Fund	34,776	0	0	34,776
Special Revenue Funds	0	71,390	32,514	103,904
Total Fund Balances	<u>42,189</u>	<u>71,390</u>	<u>36,033</u>	<u>149,612</u>
Total Liabilities and Fund Balances	<u>\$312,089</u>	<u>\$88,260</u>	<u>\$57,214</u>	<u>\$457,563</u>

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, 2002

Total Governmental Fund Balances	\$149,612
Amounts reported for governmental activities on the statement of net assets are different because of the following:	
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	69,167
Other long-term assets are not available to pay for current period expenditures and, therefore, deferred in the funds: Intergovernmental Receivable	37,118
Long-term liabilities are not due and payable in the current period and, therefore, not reported in the funds: Compensated Absences Payable	<u>(132,767)</u>
Net Assets of Governmental Activities	<u><u>\$123,130</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, 2002

	General Fund	Title VI-B Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Intergovernmental	\$1,371,364	\$389,611	\$257,532	\$2,018,507
Interest	22,867	0	0	22,867
Tuition and Fees	28,155	0	0	28,155
Extracurricular Activities	413	0	0	413
Customer Services	1,553,443	0	7,420	1,560,863
Charges for Services	0	0	948	948
Gifts and Donations	759	0	0	759
Miscellaneous	3,048	0	25	3,073
Total Revenues	<u>2,980,049</u>	<u>389,611</u>	<u>265,925</u>	<u>3,635,585</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	118,012	0	191,600	309,612
Special	685,912	5,330	0	691,242
Support Services:				
Pupils	656,900	4,702	7,387	668,989
Instructional Staff	1,149,965	0	47,539	1,197,504
Board of Education	16,574	0	0	16,574
Administration	199,169	0	0	199,169
Fiscal	135,080	0	4,677	139,757
Business	7,806	0	0	7,806
Operation and Maintenance of Plant	7,867	0	2,017	9,884
Pupil Transportation	1,535	0	0	1,535
Central	16,860	0	250	17,110
Non-Instructional Services	0	0	34,362	34,362
Capital Outlay	14,152	0	0	14,152
Intergovernmental	0	314,804	15,337	330,141
Total Expenditures	<u>3,009,832</u>	<u>324,836</u>	<u>303,169</u>	<u>3,637,837</u>
Excess of Revenues Over (Under) Expenditures	(29,783)	64,775	(37,244)	(2,252)
<u>Other Financing Sources:</u>				
Sale of Capital Assets	<u>500</u>	<u>0</u>	<u>0</u>	<u>500</u>
Net Change in Fund Balances	(29,283)	64,775	(37,244)	(1,752)
Fund Balances at Beginning of Year	<u>71,472</u>	<u>6,615</u>	<u>73,277</u>	<u>151,364</u>
Fund Balances at End of Year	<u>\$42,189</u>	<u>\$71,390</u>	<u>\$36,033</u>	<u>\$149,612</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, 2002

Net Change in Fund Balances - Total Governmental Funds (\$1,752)

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

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

Capital Outlay - Depreciable Capital Assets	17,430	
Depreciation	(40,507)	
	(23,077)	(23,077)

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

Sale of Capital Assets	(500)	
Gain on Sale of Capital Assets	83	
	(417)	(417)

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

Intergovernmental	6,585	
Customer Services	(488)	
Miscellaneous	(162)	
	5,935	5,935

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

Compensated Absences Payable		(4,240)
		(4,240)

Change in Net Assets of Governmental Activities (\$23,551)

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$1,330,697	\$1,371,526	\$1,371,526	\$0
Interest	40,000	22,655	23,750	1,095
Tuition and Fees	28,100	28,155	28,155	0
Extracurricular Activities	0	413	413	0
Customer Services	1,570,042	1,408,894	1,507,239	98,345
Gifts and Donations	0	759	759	0
Miscellaneous	0	2,716	2,716	0
Total Revenues	<u>2,968,839</u>	<u>2,835,118</u>	<u>2,934,558</u>	<u>99,440</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	196,290	196,960	121,603	75,357
Special	723,700	744,449	729,348	15,101
Support Services:				
Pupils	720,500	721,129	697,051	24,078
Instructional Staff	1,213,725	1,214,140	1,207,526	6,614
Board of Education	20,450	20,450	17,648	2,802
Administration	200,000	220,418	212,044	8,374
Fiscal	140,650	140,650	135,447	5,203
Business	10,000	10,000	7,806	2,194
Operation and Maintenance of Plant	12,550	12,550	7,867	4,683
Pupil Transportation	3,000	3,000	1,297	1,703
Central	10,500	17,500	15,415	2,085
Capital Outlay	2,000	14,790	14,152	638
Debt Service:				
Principal Retirement				0
Interest and Fiscal Charges				0
Total Expenditures	<u>3,253,365</u>	<u>3,316,036</u>	<u>3,167,204</u>	<u>148,832</u>
Excess of Revenues				
Under Expenditures	<u>(284,526)</u>	<u>(480,918)</u>	<u>(232,646)</u>	<u>248,272</u>
<u>Other Financing Sources:</u>				
Refund of Prior Year Expenditures	0	252	252	0
Sale of Capital Assets	500	500	500	0
Total Other Financing Sources	<u>500</u>	<u>752</u>	<u>752</u>	<u>0</u>
Net Change in Fund Balance	(284,026)	(480,166)	(231,894)	248,272
Fund Balance at Beginning of Year	362,530	362,530	362,530	0
Prior Year Encumbrances Appropriated	15,671	15,671	15,671	0
Fund Balance (Deficit) at End of Year	<u>\$94,175</u>	<u>(\$101,965)</u>	<u>\$146,307</u>	<u>\$248,272</u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
Title VI-B Special Revenue Fund
For the Fiscal Year Ended June 30, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$379,260	\$345,017	\$345,018	\$1
<u>Expenditures:</u>				
Current:				
Instruction:				
Special	52,748	52,748	45,154	7,594
Support Services:				
Pupils	227,458	227,458	171,430	56,028
Instructional Staff	88,424	88,424	75,118	13,306
Administration	68,775	68,775	58,445	10,330
Fiscal	1,000	1,000	0	1,000
Total Expenditures	438,405	438,405	350,147	88,258
Excess of Revenues				
Under Expenditures	(59,145)	(93,388)	(5,129)	88,259
Fund Balance at Beginning of Year				
	25,721	25,721	25,721	0
Fund Balance (Deficit) at End of Year	(\$33,424)	(\$67,667)	\$20,592	\$88,259

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2002

	Investment Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$481,765	\$128,602
<u>Liabilities:</u>		
Undistributed Assets	0	127,585
Due to Students	0	1,017
Total Liabilities	0	\$128,602
<u>Net Assets:</u>		
Held in Trust for External Pool Participants	\$481,765	

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2002

	Investment Trust
<u>Additions:</u>	
Interest	\$8,041
 <u>Deductions:</u>	
Distributions to Participants	8,041
Capital Transactions	47,310
Total Deductions	55,351
 Change in Net Assets	 (47,310)
 Net Assets at Beginning of Year	 529,075
Net Assets at End of Year	\$481,765

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, 2002

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 two administrators, forty-two classified employees, and forty-one certified teaching personnel that provide services to 11,469 students from the local and city school districts.

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

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

The Educational Service Center participates in two jointly governed organizations and two insurance pools. These organizations are the Millstream Cooperative Career Center, Hancock County Local Professional Development Committee, NOACSC Workers' Compensation Group Rating Plan, and the Hancock County Schools Health Benefit Fund and Trust. Information about these organizations is presented in Notes 15 and 16 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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

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 statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

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 two major governmental funds:

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

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

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

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. Budgetary Process

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

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

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

F. Cash and Investments

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

During fiscal year 2002, investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2002 was \$22,867, which includes \$15,835 assigned from other Educational Service Center funds.

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(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 on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated 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	5 years
Furniture, Fixtures, and Equipment	5 years
Vehicles	5 years

I. Compensated Absences

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

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

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

J. 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 year.

K. Net Assets

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

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

L. 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.

M. Interfund Transactions

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

N. Extraordinary and Special Items

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

O. 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 - COMPLIANCE

The Educational Service Center did not certify some obligations as required by Ohio Revised Code § 5705.41(D).

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Net Change in Fund Balance		
	General	Title VI-B
GAAP Basis	(\$29,283)	\$64,775
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals:		
Accrued FY 2001, Received in Cash FY 2002	66,368	23,075
Accrued FY 2002, Not Yet Received in Cash	(112,490)	(67,668)
Expenditure Accruals:		
Accrued FY 2001, Paid in Cash FY 2002	(387,800)	(43,301)
Accrued FY 2002, Not Yet Paid in Cash	246,511	16,870
Cash Adjustments:		
Unrecorded Activity FY 2001	910	
Unrecorded Activity FY 2002	(27)	
Prepaid Items	(6,598)	1,120
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(9,485)	
Budget Basis	(\$231,894)	(\$5,129)

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits the 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 deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts, including passbook accounts.

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

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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

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

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

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$411,302 and the bank balance was \$932,961. Of the bank balance, \$100,000 was covered by federal depository insurance and \$832,961 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

The Educational Service Center’s investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Educational Service Center or its agent in the Educational Service Center’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the Educational Service Center’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center’s name. The Educational Service Center’s investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2002, the fair value of funds on deposit with STAR Ohio was \$414,016.

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$825,318	
STAR Ohio	(414,016)	\$414,016
GASB Statement No. 3	\$411,302	\$414,016

NOTE 6 - INVESTMENT POOL

The Educational Service Center serves as fiscal agent for the Regional Planning Development Center of Northwest Ohio, a legally separate entity. The Educational Service Center pools the monies of this entity with the Educational Service Center’s for investment purposes. The Educational Service Center cannot allocate its investments between internal and external investment pools. The investment pool is not registered with the Securities and Exchange Commission as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The carrying amount and fair value for both the internal and external portion of the investment pool are disclosed in Note 5 - Deposits and Investments. Condensed financial information for the investment pool follows:

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Statement of Net Assets
June 30, 2002

<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$825,318</u>
 <u>Net Assets Held in Trust for Pool Participants:</u>	
Internal Portion	343,553
External Portion	<u>481,765</u>
Total Net Assets Held in Trust for Pool Participants	<u>\$825,318</u>

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2002

<u>Additions:</u>	
Interest	<u>\$30,908</u>
 <u>Deductions:</u>	
Distributions to Participants	31,791
Capital Transactions	<u>346,343</u>
Total Deductions	<u>378,134</u>
 Change in Net Assets	 (347,226)
 Net Assets Beginning of Year	 <u>1,172,544</u>
Net Assets End of Year	<u>\$825,318</u>

NOTE 7 - STATE FUNDING

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

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

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

NOTE 8 - RECEIVABLES

Receivables at June 30, 2002, consisted of accounts and intergovernmental receivables. All receivables are considered collectible within one year and in full.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	\$134,198
Title VI-B	67,668
Other Governmental Funds	
Early Intervention	18,593
Total Intergovernmental Receivables	\$220,459

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Governmental Activities				
Depreciable Capital Assets				
Buildings	\$36,837			\$36,837
Furniture, Fixtures, and Equipment	215,019	\$17,430	\$6,560	225,889
Total Depreciable Capital Assets	251,856	17,430	6,560	262,726
Less Accumulated Depreciation				
Buildings	(19,032)	(7,367)		(26,399)
Furniture, Fixtures, and Equipment	(140,163)	(33,140)	(6,143)	(167,160)
Total Accumulated Depreciation	(159,195)	(40,507)	(6,143)	(193,559)
Depreciable Capital Assets, Net	\$92,661	(\$23,077)	\$417	\$69,167

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$2,307
Special	14,522
Support Services:	
Pupils	5,845
Instructional Staff	7,230
Administration	9,767
Fiscal	836
Total Depreciation Expense	\$40,507

NOTE 10 - 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 2002, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by State Automobile Mutual Company:

Commercial Property Contents - replacement cost (\$250 deductible)	\$180,528
Inland Marine Coverage (\$250 deductible)	135,889
Comprehensive General Liability	
Per Occurrence	1,000,000
Total Per Year	2,000,000
Business Auto	1,000,000

Coverage by Nationwide Insurance Company:

General Liability	
Per Occurrence	1,000,000
Total Per Year	3,000,000
Fire Damage	100,000
Medical Expense	5,000

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

For fiscal year 2002, the Educational Service Center participated in the NOACSC Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

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

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002. Contribution rates are established by STRS, upon recommendation of a consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2002, 2001, and 2000, were \$179,321, \$165,211, and \$99,333, respectively; 93 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$12,925, is recorded as a liability.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$42,742, \$25,114, and \$33,321, respectively; 93 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$3,069, is recorded as a liability.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirements System/School Employees Retirement System. As of June 30, 2002, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the School Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount was \$84,942.

STRS pays health care benefits from Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 eligible benefit recipients.

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$66,853 for fiscal year 2002.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

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

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in the Educational Service Center's long-term obligations during fiscal year 2002 were as follows:

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02	Amounts Due Within One Year
Governmental Activities					
Compensated Absences	\$128,527	\$4,240		\$132,767	\$50,020

Compensated absences will be paid from the General Fund.

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

A. Millstream Cooperative Vocational Career Center

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

B. Hancock County Local Professional Development Committee

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

NOTE 16 - INSURANCE POOLS

A. NOACSC Workers' Compensation Group Rating Plan

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

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

B. Hancock County Schools Health Benefit Fund and Trust

The Hancock County Schools Health Benefit Fund and Trust (the Trust) is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)

Blanchard Valley Board of Mental Retardation/Developmental Disabilities. The Trust is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to participants. The Administrative Committee of the Trust consists of the superintendent from each participating member. The Administrative Committee advises the trustee, Sky Bank, concerning aspects of the administration of the Trust.

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

NOTE 17 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTES 18 - 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, 2002.

B. Litigation

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

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Hancock County Educational Service Center
Schedule of Federal Awards Receipts and Expenditures
For the Year Ended June 30, 2002

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
National School Lunch Program	LL-P4-2001	10.555	\$289	\$289
	LL-P4-2002	10.555	1,907	1,907
Total National School Lunch Program			2,196	2,196
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
<u>Special Education Cluster:</u>				
Special Education Grants to States	6B-SF-2001P	84.027	33,424	59,145
	6B-SF-2002P	84.027	311,592	291,001
Total Special Education Grant to States			345,016	350,146
Special Education - Preschool Grant	PG-S1-2002P	84.173	17,524	15,340
Total Special Education Cluster			362,540	365,486
<i>Passed Through Ohio Department of Health:</i>				
Special Education - Grants for Infants and Families with Disabilities	3250011A	84.181	22,327	18,694
	3250011EG02	84.181	22,494	18,723
Total Special Education - Grants for Infants and Families with Disabilities			44,821	37,417
Total Department of Education			407,361	402,903
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program	3200253	93.778	66,469	66,469
Totals			\$476,026	\$471,568

The accompanying notes are an integral part of this schedule.

Hancock County Educational Service Center
Notes to the Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - OTHER FEDERAL ASSISTANCE

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



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

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

To the Governing Board:

We have audited the financial statements of the Hancock County Educational Service Center (the ESC) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 16, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the ESC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2002-10232-001.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the ESC in a separate letter dated December 16, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large loop at the end of the last name.

Jim Petro
Auditor of State

December 16, 2002



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

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

To the Governing Board:

Compliance

We have audited the compliance of the Hancock County Educational Service Center (the ESC) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The ESC's major federal program is 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 program is the responsibility of the ESC's management. Our responsibility is to express an opinion on the ESC's compliance based on our audit.

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

In our opinion, the ESC complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

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

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

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

December 16, 2002

Hancock County Educational Service Center
Schedule of Findings
OMB Circular A -133 § .505
June 30, 2002

1. SUMMARY OF AUDITOR'S RESULTS

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

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

Finding Number 2002-10232-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification should be considered null and void.

**Finding Number 2002-10232-001
(Continued)**

This section also provides two exceptions to the above requirements:

- A. Then and Now Certificate - if no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the purchase order or contract and at the time of the certificate, appropriated and free of any previous encumbrance, the Governing Board may authorize the issuance of a check in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than \$1000, the fiscal officer may authorize it to be paid without the affirmation of the Governing Board, if such expenditure is otherwise valid.

Thirty percent of the transactions tested did not receive prior certification, nor were they certified using a then and now certification. Certification is not only required by Ohio law but is a key control in the disbursement process to assure that purchase commitments receive prior approval, and to help reduce the possibility of ESC funds being over expended or exceeding budgetary spending limitations as set by the Governing Board. To improve controls over disbursements, we recommend all ESC disbursements receive prior certification of the Treasurer and that the ESC periodically review the expenditures made to ensure they are within the appropriations adopted by the Governing Board, certified by the Treasurer and recorded against appropriations.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

Hancock County Educational Service Center
 Schedule o Prior Audit Findings
OMB Circular A -133 § .315 (b)
 June 30, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10232-001	Reportable conditions for documentation of receipt of goods/services prior to payment of invoices	Yes	



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HANCOCK 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
JANUARY 28, 2003**