



Mary Taylor, CPA  
Auditor of State



**PERRY HOCKING EDUCATIONAL SERVICE CENTER  
PERRY COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Perry Hocking Educational Service Center  
Perry County  
1605 Airport Road  
New Lexington, Ohio 43764

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Perry Hocking Educational Service Center, Perry County, Ohio (the Center), as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Perry Hocking Educational Service Center, Perry County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2007, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The Schedule of Federal of Awards Receipts and Expenditures is 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. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Mary Taylor, CPA**  
Auditor of State

August 15, 2007

# Perry-Hocking Educational Service Center, Ohio

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006*

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The discussion and analysis of the Perry-Hocking Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Educational Service Center's financial performance.

## **FINANCIAL HIGHLIGHTS**

**Key financial highlights for the fiscal year 2006 are as follows:**

- In total, net assets decreased \$307,036.
- Program specific revenues, in the form of charges for services and sales and operating grants and contributions, accounted for \$6,119,495, or 87 percent of total revenues.
- The Educational Service Center had \$7,359,599 in total expenses, only \$6,119,495 of these expenses were offset by program specific charges for services and sales and operating grants and contributions.

## **USING THIS ANNUAL FINANCIAL REPORT**

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

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

### ***Reporting the Educational Service Center as a Whole***

#### *Statement of New Assets and Statement of Activities*

While this document contains information about the large number of funds used by the Educational Service Center to provide programs and activities for students, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

# Perry-Hocking Educational Service Center, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006

## Reporting the Educational Service Center's Most Significant Funds

### Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 6. Fund financial statements provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General fund and the Miscellaneous State Grants Special Revenue fund.

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

## THE EDUCATIONAL SERVICE CENTER AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2006 compared to 2005.

Table 1  
Net Assets

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current and Other Assets	\$1,229,153	\$1,305,102
Capital Assets	<u>544,617</u>	<u>1,338,143</u>
Total Assets	<u>1,773,770</u>	<u>2,643,245</u>
<b>Liabilities</b>		
Long-term Liabilities	267,576	192,447
Other Liabilities	<u>1,061,448</u>	<u>768,639</u>
Total Liabilities	<u>1,329,024</u>	<u>961,086</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	491,952	1,312,357
Restricted	1,560	502,406
Unrestricted	<u>(48,766)</u>	<u>(132,604)</u>
Total Net Assets	<u>\$444,746</u>	<u>\$1,682,159</u>

Total net assets decreased \$307,036. This decrease is primarily due to an increase in other liabilities resulting from an increase in accounts payable from the prior year, as well as, an increase in deferred revenue.

**Perry-Hocking Educational Service Center, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006 as compared to 2005.

Table 2  
Changes in Net Assets

	Governmental Activities	
	2006	2005
<b>Revenues</b>		
Program Revenues		
Charges for Services	\$ 3,403,569	\$ 3,691,867
Operating Grants, Contributions and Interest	2,715,926	2,735,422
Total Program Revenues	<u>6,119,495</u>	<u>6,427,289</u>
General Revenues		
Grants and Entitlements	867,013	310,158
Investment Earnings	23,059	16,598
Gifts and Donations	1,450	2,658
Miscellaneous	41,546	55,700
Total General Revenues	<u>933,068</u>	<u>385,114</u>
Total Revenues	<u>7,052,563</u>	<u>6,812,403</u>
<b>Program Expenses</b>		
Instruction:		
Regular	898,943	886,701
Special	830,729	825,724
Vocational	-	2,138
Adult/Continuing	23,257	38,532
Other	222,915	77,750
Support Services:		
Pupils	991,916	967,663
Instructional Staff	2,219,290	2,030,021
Board of Education	66,491	47,005
Administration	1,535,474	1,598,803
Fiscal	307,573	260,985
Operation and Maintenance of Plant	137,169	196,825
Pupil Transportation	5,222	3,735
Central	75,871	91,483
Operation of Non-Instructional Services	36,111	25,597
Extracurricular Activities	3,783	3,891
Interest and Fiscal Charges	4,855	2,504
Total Expenses	<u>7,359,599</u>	<u>7,059,357</u>
Change in Net Assets	(307,036)	(246,954)
Net Assets, Beginning of Year - <i>as restated (See Note 3)</i>	751,782	1,929,113
Net Assets, End of Year	<u>444,746</u>	<u>1,682,159</u>

General revenues increased \$546,330 due primarily to the educational service center receiving more government grants. Expenditures for the educational service center remained consistent between the two fiscal years.

## Perry-Hocking Educational Service Center, Ohio

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006*

### Governmental Activities

Charges for services and sales comprised 48 percent of revenue for governmental activities, while operating grants and contributions comprised 38 percent of revenue for governmental activities of the Service Center for fiscal year 2006.

As indicated by governmental program expenses, support services are emphasized. Support services instructional staff comprised 30 percent of governmental program expenses with support services administration comprising 21 percent of governmental expenses.

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

Table 3  
Governmental Activities

	<u>Total Cost of Services</u> 2006	<u>Net Cost of Services</u> 2006	<u>Total Cost of Services</u> 2005	<u>Net Cost of Services</u> 2005
Program Expenses				
Instruction:				
Regular	\$ 898,943	\$ 164,512	\$ 886,701	\$ 93,648
Special	830,729	(64,448)	825,724	(122,249)
Vocational	-	-	2,138	2,138
Adult/Continuing	23,257	5,233	38,532	(18,520)
Other	222,915	37,755	77,750	(2,952)
Support Services:				
Pupils	991,916	233,513	967,663	166,722
Instructional Staff	2,219,290	453,034	2,030,021	209,189
Board of Education	66,491	16,569	47,005	9,826
Administration	1,535,474	318,780	1,598,803	207,113
Fiscal	307,573	66,952	260,985	32,788
Operation and Maintenance of Plant	137,169	39,081	196,825	37,626
Pupil Transportation	5,222	885	3,735	532
Central	75,871	17,719	91,483	16,677
Operation of Non-Instructional Services	36,111	(51,352)	25,597	(845)
Extracurricular Activities	3,783	640	3,891	(148)
Interest and Fiscal Charges	4,855	1,231	2,504	523
Total	<u>\$ 7,359,599</u>	<u>\$ 1,240,104</u>	<u>\$ 7,059,357</u>	<u>\$ 632,068</u>

### THE EDUCATIONAL SERVICE CENTER FUNDS

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$7,202,261 and expenditures and other financing uses of \$7,713,806. The net change in fund balance for the year was most significant in the Miscellaneous State Grants fund.

The fund balance of the General Fund increased \$19,639. This increase was primarily due to decreases in expenditures for regular instruction and administration.

The fund balance of the Miscellaneous State Grants fund decreased \$300,820. This decrease was primarily due to a decrease in intergovernmental revenue and increases in expenditures for regular instruction and instructional staff support services.

# Perry-Hocking Educational Service Center, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006

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## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2006, the Educational Service Center had \$544,617 invested in land and land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2006 balances compared to 2005.

Table 4  
Capital Assets  
(Net of Depreciation)

	Governmental Activities	
	2006	2005
Land	\$193,898	\$245,523
Buildings and Improvements	166,536	926,099
Furniture and Equipment	176,667	157,334
Vehicles	7,516	9,187
Totals	<u>\$544,617</u>	<u>\$1,338,143</u>

For additional capital asset information, see Note 8 to the basic financial statements.

### Debt

At June 30, 2006, the Educational Service Center had capital leases outstanding of \$52,665. The leases are for copiers. For additional information on debt, see Note 13 to the basic financial statements.

## CONTACTING THE EDUCATIONAL SERVICE CENTER'S FINANCIAL MANAGEMENT

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

**Perry-Hocking Educational Service Center, Ohio**  
**Statement of Net Assets**  
**June 30, 2006**

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 719,755
Accounts Receivable	173,310
Intergovernmental Receivable	336,088
Noncurrent Assets:	
Non-Depreciable Capital Assets	193,898
Depreciable Capital Assets, net	350,719
<i>Total Assets</i>	1,773,770
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts Payable	267,963
Accrued Wages and Benefits	588,244
Intergovernmental Payable	193,792
Claims Payable	11,449
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	22,216
Due in More Than One Year	245,360
<i>Total Liabilities</i>	1,329,024
<b>NET ASSETS:</b>	
Invested in Capital Assets, Net of Related Debt	491,952
Restricted for Debt Service	104
Restricted for Capital Outlay	1,456
Unrestricted	(48,766)
<i>Total Net Assets</i>	\$ 444,746

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

**Perry-Hocking Educational Service Center, Ohio**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2006**

	<u>Program Revenues</u>			<u>Net(Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction:				
Regular	\$ 898,943	\$ 296,209	\$ 438,222	\$ (164,512)
Special	830,729	604,389	290,788	64,448
Adult/Continuing	23,257	737	17,287	(5,233)
Other	222,915	7,573	177,587	(37,755)
Support Services:				
Pupils	991,916	645,242	113,161	(233,513)
Instructional Staff	2,219,290	923,372	842,884	(453,034)
Board of Education	66,491	47,134	2,788	(16,569)
Administration	1,535,474	578,542	638,152	(318,780)
Fiscal	307,573	123,254	117,367	(66,952)
Operation and Maintenance of Plant	137,169	64,730	33,358	(39,081)
Pupil Transportation	5,222	177	4,160	(885)
Central	75,871	49,762	8,390	(17,719)
Operation of Non-Instructional Services	36,111	58,695	28,768	51,352
Extracurricular Activities	3,783	129	3,014	(640)
Interest and Fiscal Charges	4,855	3,624	-	(1,231)
<i>Total Governmental Activities</i>	<u>\$ 7,359,599</u>	<u>\$ 3,403,569</u>	<u>\$ 2,715,926</u>	<u>(1,240,104)</u>
General Revenues:				
Grants and Entitlements not Restricted to Specific Programs				867,013
Gifts and Donations not Restricted to Specific Programs				1,450
Investment Earnings				23,059
Miscellaneous				41,546
<i>Total General Revenues</i>				<u>933,068</u>
<i>Change in Net Assets</i>				(307,036)
<i>Net Assets Beginning of Year - as restated (See Note 3)</i>				<u>751,782</u>
<i>Net Assets End of Year</i>				<u>\$ 444,746</u>

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

**Perry-Hocking Educational Service Center, Ohio**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	<u>General</u>	<u>Miscellaneous State Grants</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 387,351	\$ 59,081	\$ 96,606	\$ 543,038
Accounts Receivable	157,498	-	15,812	173,310
Interfund Receivable	33,563	-	-	33,563
Intergovernmental Receivable	84,690	175,430	75,968	336,088
<i>Total Assets</i>	<u>663,102</u>	<u>234,511</u>	<u>188,386</u>	<u>1,085,999</u>
<b>LIABILITIES:</b>				
Accounts Payable	947	176,229	90,787	267,963
Accrued Wages and Benefits	500,707	19,093	68,444	588,244
Interfund Payable	-	31,939	1,624	33,563
Intergovernmental Payable	157,189	15,382	21,221	193,792
Deferred Revenue	53,720	-	6,909	60,629
<i>Total Liabilities</i>	<u>712,563</u>	<u>242,643</u>	<u>188,985</u>	<u>1,144,191</u>
<b>FUND BALANCES:</b>				
Reserved:				
Reserved for Encumbrances	1,021	1,062	165,527	167,610
Unreserved, Undesignated, Reported in:				
General Fund	(50,482)	-	-	(50,482)
Special Revenue Funds	-	(9,194)	(167,686)	(176,880)
Debt Service Funds	-	-	104	104
Capital Projects Funds	-	-	1,456	1,456
<i>Total Fund Balances</i>	<u>(49,461)</u>	<u>(8,132)</u>	<u>(599)</u>	<u>(58,192)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 663,102</u>	<u>\$ 234,511</u>	<u>\$ 188,386</u>	<u>\$ 1,085,999</u>

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

**Perry-Hocking Education Service Center, Ohio**  
**Reconciliation of Total Governmental Fund Balances**  
**to Net Assets of Governmental Activities**  
**June 30, 2006**

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<b>Total Governmental Fund Balances</b>		(\$58,192)
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.		544,617
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Grants		60,629
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net assets.		165,268
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Capital Leases	(52,665)	
Compensated Absences	(214,911)	
	(267,576)	(267,576)
<b>Net Assets of Governmental Activities</b>		<b>\$444,746</b>

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

**Perry-Hocking Educational Service Center, Ohio**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2006**

	<u>General</u>	<u>Miscellaneous State Grants</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>				
Intergovernmental	\$ 1,127,569	\$ 1,330,694	\$ 1,141,385	\$ 3,599,648
Interest	23,059	-	-	23,059
Tuition and Fees	3,245,399	-	103,984	3,349,383
Extracurricular	-	-	465	465
Gifts and Donations	-	-	1,450	1,450
Miscellaneous	-	-	41,546	41,546
<i>Total Revenues</i>	<u>4,396,027</u>	<u>1,330,694</u>	<u>1,288,830</u>	<u>7,015,551</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	370,578	250,025	302,155	922,758
Special	838,568	-	37,948	876,516
Adult/Continuing	-	-	37,530	37,530
Other	-	-	222,915	222,915
<b>Support Services:</b>				
Pupils	891,944	-	153,762	1,045,706
Instructional Staff	1,183,541	675,004	383,550	2,242,095
Board of Education	62,991	-	3,500	66,491
Administration	756,266	571,424	240,599	1,568,289
Fiscal	155,869	109,945	37,379	303,193
Operation and Maintenance of Plant	83,285	23,672	13,201	120,158
Pupil Transportation	-	140	5,082	5,222
Central	81,274	-	8,896	90,170
Operation of Non-Instructional Services	-	1,304	34,807	36,111
Extracurricular Activities	-	-	3,783	3,783
Capital Outlay	76,995	-	46,087	123,082
<b>Debt Service:</b>				
Principal	32,932	-	-	32,932
Interest	4,855	-	-	4,855
<i>Total Expenditures</i>	<u>4,539,098</u>	<u>1,631,514</u>	<u>1,531,194</u>	<u>7,701,806</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(143,071)</u>	<u>(300,820)</u>	<u>(242,364)</u>	<u>(686,255)</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Transfers In	-	-	12,000	12,000
Proceeds from Sale of Capital Assets	114,899	-	-	114,899
Inception of Capital Lease	59,811	-	-	59,811
Transfers Out	(12,000)	-	-	(12,000)
<i>Total Other Financing Sources and Uses</i>	<u>162,710</u>	<u>-</u>	<u>12,000</u>	<u>174,710</u>
<i>Net Change in Fund Balances</i>	19,639	(300,820)	(230,364)	(511,545)
<i>Fund Balances at Beginning of Year</i>	<u>(69,100)</u>	<u>292,688</u>	<u>229,765</u>	<u>453,353</u>
<i>Fund Balances at End of Year</i>	<u>\$ (49,461)</u>	<u>\$ (8,132)</u>	<u>\$ (599)</u>	<u>\$ (58,192)</u>

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

**Perry-Hocking Educational Service Center, Ohio**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2006**

**Net Change in Fund Balances - Total Governmental Funds** (\$511,545)

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

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

Capital Asset Additions	138,060	
Depreciation Expense	(69,085)	
	68,975	68,975

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. These are the amount of the loss on the disposal of capital assets and proceeds from the disposal of capital assets.

Loss on Disposal of Capital Assets	7,342	
Proceeds on Disposal Of Capital Assets	(114,899)	
	(107,557)	(107,557)

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

Intergovernmental	(16,708)	
Tuition and Fees	53,720	
	37,012	37,012

New capital lease obligations in the statmenet of revenues, expenditures, and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities. (59,811)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 105,775

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 32,932

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

Decrease in Compensated Absences	127,183	
	127,183	127,183

**Change in Net Assets of Governmental Activities** (\$307,036)

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

**Perry-Hocking Educational Service Center, Ohio**  
*Statement of Net Assets - Governmental Activities*  
*Internal Service Fund*  
**June 30, 2006**

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	<u><b>Internal Service</b></u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 176,717
<i>Total Assets</i>	<u>176,717</u>
LIABILITIES:	
Current Liabilities:	
Claims Payable	<u>11,449</u>
<i>Total Liabilities</i>	<u>11,449</u>
NET ASSETS:	
Unrestricted	<u>165,268</u>
<i>Total Net Assets</i>	<u><u>\$ 165,268</u></u>

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

**Perry-Hocking Educational Service Center, Ohio**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets - Governmental Activities**  
**Internal Service Fund**  
**For the Fiscal Year Ended June 30, 2006**

	<b>Internal Service</b>
<b>OPERATING REVENUES:</b>	
Charges for Services	\$ 864,281
<i>Total Operating Revenues</i>	864,281
<b>OPERATING EXPENSES:</b>	
Purchased Services	22,244
Claims	736,262
<i>Total Operating Expenses</i>	758,506
<i>Changes in Net Assets</i>	105,775
<i>Net Assets at Beginning of Year</i>	59,493
<i>Net Assets at End of Year</i>	\$ 165,268

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

**Perry-Hocking Educational Service Center, Ohio**  
**Statement of Cash Flows - Governmental Activities**  
**Internal Service Fund**  
**For the Fiscal Year Ended June 30, 2006**

	<b>Internal Service Fund</b>
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>	
<i>Cash Flows from Operating Activities:</i>	
Cash Received from Customers	\$864,281
Cash Payments for Claims	(730,122)
Cash Payments for Purchased Services	(22,244)
<i>Net Cash Provided by Operating Activities</i>	111,915
Cash and Cash Equivalents at Beginning of Year	64,802
Cash and Cash Equivalents at End of Year	\$176,717
<b><i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i></b>	
Operating Income	\$105,775
<i>Changes in Assets and Liabilities:</i>	
Increase in Claims Payable	6,140
<i>Net Cash Provided by Operating Activities</i>	\$111,915

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

## **Perry-Hocking Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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### **Note 1 – Reporting Entity**

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

The Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has two administrators, sixty five certified teaching personnel, and eighty seven classified employees that provide services to 10,512 students from the local, exempted village, and city school districts.

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

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

The Educational Service Center participates in four jointly governed organizations and two insurance purchasing pools. These organizations are the Southeast Ohio Voluntary Educational Consortium, Tri-County Joint Vocational School District, the Mid-East Joint Vocational School District, the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan, which are presented in Notes 14 and 15 to the basic financial statements.

The ESC serves as fiscal agent for the Ohio Department of Education for funding provided to the Southeast service area, one of twelve multi-county regions created throughout the state for the purpose of coordinating and delivering a statewide system of school improvement support through regional school improvement teams (RSITs). The Southeast Region includes Athens, Fairfield, Gallia, Hocking, Meigs, Perry, Vinton and Washington counties. The agreement for the fiscal year ended June 30, 2006 entered into between the Ohio Department of Education and the ESC provided for the ESC to administer, with the support of the Southeast RSIT, Professional Development and Technical Assistance services and Praxis III services. The financial activity of these services is reflected in special revenue funds of the ESC.

### **Note 2 - Summary of Significant Accounting Policies**

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

## Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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

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

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government.

#### A. Basis of Presentation

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

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

#### B. Fund Accounting

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

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

**General Fund** The General Fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.

**Miscellaneous State Grants Special Revenue Fund** The Miscellaneous State Grant Special Revenue Fund accounts for various monies received from state agencies which are not classified elsewhere.

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

## Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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

#### B. Fund Accounting (Continued)

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

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

**Fiduciary Fund Type** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. The Educational Service Center's only fiduciary fund is an agency fund, which accounts for resources held for other organizations. As of June 30, 2006 the Educational Service Center's fiduciary fund carried a zero balance.

#### C. Measurement Focus

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

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

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

#### D. Basis of Accounting

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

## Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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

#### D. Basis of Accounting (Continued)

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

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

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

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

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

#### E. Cash and Cash Equivalents

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

During fiscal year 2006, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$23,059.

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

# Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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

### F. Capital Assets

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

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

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

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

### G. Interfund Activity

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

### H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means.

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

### I. Accrued Liabilities and Long-term Obligations

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

## **Perry-Hocking Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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

#### ***J. Interfund Balances***

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

#### ***K. Fund Balance Reserves***

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

#### ***L. Net Assets***

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

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

As of June 30, 2006, the Educational Service Center had \$1,560 in restricted net assets, none of which is restricted by enabling legislation.

#### ***M. Estimates***

The preparation of the 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.

#### ***N. Budgetary Process***

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

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

## Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

### Note 3 – Changes in Accounting Principle and Restatement of Fund Balance

For the fiscal year 2006, the Educational Service Center implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

Restatements: Restatements were made to prior year balances to make corrections to long-term liabilities and capital assets. The restatements had the following effect on net assets as previously stated:

	Governmental Net Assets
Beginning Balance	\$1,682,159
Restatement	(930,377)
Restated Balance	<u>\$751,782</u>

### Note 4 - Deposits and Investments

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

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

## Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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### **Note 4 - Deposits and Investments** *(Continued)*

3. Written repurchase agreements in the securities listed above;
4. Bond and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

***Deposits*** Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2006, \$507,128 of the District's bank balance of \$607,128 was exposed to custodial risk because it was uninsured and uncollateralized with securities held by pledging financial institution's trust department or agent, but not in the District's name.

The Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledge to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

# Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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## Note 4 - Deposits and Investments (Continued)

**Investments** The Educational Service Center had the following investments:

	<u>Uncategorized</u>	<u>Weighted Average Maturity (Yrs.)</u>
STAR Ohio	<u>\$429,205</u>	< 1 Year

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

Credit risk – STAR Ohio carries a rating of AAAM by Standard and Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Center has no investment policy that would further limit its investment choices.

Concentration of credit risk – The Center’s investment policy addresses credit risk by stating the Center should normally seek to diversify its holdings of other investments by avoiding concentrations of specific issuers. 100% of the Center’s investment is with STAR Ohio.

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

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

## Note 5 – 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 \$10.75. This amount is deducted by the State Department of Education from that local school district’s resources provided under the State’s School Foundation Program. The Department of Education’s portion is determined by multiplying the sum of the average daily memberships of all of the local school districts served by the Educational Service Center by \$37. This amount is provided from State resources.

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

**Perry-Hocking Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**Note 6 - Receivables**

Receivables at June 30, 2006, consisted of accounts, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected in one year.

A summary of the principal items of intergovernmental receivables follows:

Major Funds:	
General	\$ 84,690
Miscellaneous State Grants	175,430
Total Major Funds	<u>260,120</u>
Non-Major Special Revenue Funds:	
Public School Preschool	43,654
ABLE	6,405
Preschool Handicapped-Title I	5,433
Miscellaneous Federal Grants	20,476
Total Non-Major Special Revenue Funds	<u>75,968</u>
Total All Funds	<u>\$ 336,088</u>

**Note 7 - Risk Management**

**A. Property and Liability**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district and educational service center enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP. (See Note 15)

## Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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### Note 7 - Risk Management (Continued)

#### A. Property and Liability (Continued)

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

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Personal and Advertising injury Limit - Each Offense	1,000,000
Fire Damage Limit - Any One Event	500,000
Excess Liability:	
Each Occurrence	1,000,000
Aggregate Limit	2,000,000
Employer's Liability:	
Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Disease - Policy Limit	1,000,000
Employee's Benefits Liability:	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000

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

#### B. Workers' Compensation

For fiscal year 2006, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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

Dental, vision and healthcare reimbursement insurance is offered to employees through a self-insurance internal service fund. The fund is responsible for claims up to a specified amount per individual per year. The Health Reimbursement Account has an annual maximum aggregate of \$1,000,000. Settled claims have not exceeded this coverage in any of the past four fiscal years. Fiscal year 2006 claims activity increased primarily due to activity associated with the healthcare reimbursement account.

**Perry-Hocking Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

**Note 7 - Risk Management (Continued)**

The claims liability of \$11,449 reported in the internal service fund at June 30, 2006, is based upon an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Beginning of Year	Current Year Claims	Claims Payments	End of Year
2005	\$ 3,337	\$ 115,165	\$ 113,193	\$ 5,309
2006	5,309	736,262	730,122	11,449

**Note 8 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance at June 30, 2005	Additions	Deletions	Balance at June 30, 2006
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$ 263,468	\$ -	\$ (69,570)	\$ 193,898
Total Capital Assets not being Depreciated	263,468	-	(69,570)	193,898
Depreciable Capital Assets:				
Buildings and Improvements	160,842	41,087	(22,185)	179,744
Furniture, Fixtures, and Equipment	477,621	96,973	(52,673)	521,921
Vehicles	16,706	-	-	16,706
Total Depreciable Capital Assets	655,169	138,060	(74,858)	718,371
Less Accumulated Depreciation:				
Buildings and Improvements	(7,632)	(5,576)	-	(13,208)
Furniture, Fixtures, and Equipment	(320,287)	(61,838)	36,871	(345,254)
Vehicles	(7,519)	(1,671)	-	(9,190)
Total Accumulated Depreciation	(335,438)	(69,085)	36,871	(367,652)
Total Capital Assets being Depreciated, Net	319,731	68,975	(37,987)	350,719
Capital Assets, Net	\$ 583,199	\$ 68,975	\$ (107,557)	\$ 544,617

## Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

### Note 8 – Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	14,732
Special		2,731
Adult/Continuing		1,557
Support Services:		
Pupils		3,479
Instructional Staff		12,984
Administration		15,865
Fiscal		1,819
Operation and Maintenance of Plant		15,478
Central		440
Total Depreciation Expense	\$	<u>69,085</u>

### Note 9 - Defined Benefit Pension Plans

#### A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll; 11.7% is the percentage used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$174,624, \$129,263, and \$82,045, respectively; 64 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

#### B. State Teachers Retirement System

The Educational Service Center contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090 or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

## Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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### **Note 9 - Defined Benefit Pension Plans** *(Continued)*

#### **B. State Teachers Retirement System** *(Continued)*

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

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

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

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

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

## Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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### **Note 9 - Defined Benefit Pension Plans** *(Continued)*

#### ***B. State Teachers Retirement System*** *(Continued)*

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

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

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

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

For fiscal year 2006, plan members are required to contribute 10% of their annual covered salaries. The Educational Service Center was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$376,973, \$367,564, and \$119,572, respectively; 81% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004.

### **Note 10 - Postemployment Benefits**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated 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 obligations 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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Ohio Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year 2006, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$3,052 for fiscal year 2006. At June 30, 2005 (the latest year available), the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

## Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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### **Note 10 - Postemployment Benefits** *(Continued)*

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2006, the healthcare allocation is 2.3%. 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 2006, the minimum pay was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$25,279.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 (the latest year available) were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

### **Note 11- Employee Benefits**

#### ***A. Insurance Benefits***

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

Health insurance is provided by Anthem Blue Cross and Blue Shield. Monthly premiums for this coverage are \$942.28 for family coverage and \$354.36 for single coverage. The School District pays 90% of both family and single coverage premiums.

#### ***B. Compensated Absences***

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

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

**Perry-Hocking Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

**Note 12 – Capital Leases – Lessee Disclosure**

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

Future minimum lease payments through 2008 are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 15,338
2008	15,338
2009	15,338
2010	15,338
2011	<u>3,837</u>
Total	65,189
Less: Amount Representing Interest	<u>(12,524)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 52,665</u>

The equipment was originally capitalized in the amount of \$59,811. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2006 were \$32,932 in the governmental funds.

Property Under Capital Lease	\$ 59,811
Less: Accumulated Depreciation	<u>(8,972)</u>
Total June 30, 2006	<u>\$ 50,839</u>

**Note 13 - Long-Term Obligations**

Changes in long-term obligations of the Educational Service Center during fiscal year 2006 were as follows:

	<u>Principal Outstanding 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/06</u>	<u>Amounts Due in One Year</u>
<b>Governmental Activities:</b>					
Capital Leases	\$25,786	\$59,811	\$32,932	\$52,665	\$22,216
Compensated Absences*	<u>342,094</u>	<u>214,911</u>	<u>342,094</u>	<u>214,911</u>	<u>0</u>
Total Governmental Activities Long-Term Liabilities	<u>\$367,880</u>	<u>\$274,722</u>	<u>\$375,026</u>	<u>\$267,576</u>	<u>\$22,216</u>

\* Restated – See Note 3

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

## **Perry-Hocking Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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### **Note 14 - Jointly Governed Organizations**

#### ***A. Southeast Ohio Voluntary Educational Consortium***

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

SEOVEC is governed by a governing board which is selected by the members. Each member has one vote in all matters, and each member's control over budgeting and financing of SEOVEC is limited to its voting authority and any representation it may have on the governing board. SEOVEC operates with its own Treasurer. The continued existence of SEOVEC is not dependent on the School District's continued participation and no equity interest exists. SEOVEC has no outstanding debt. During fiscal year 2006, the Educational Service Center paid \$2,480 to SEOVEC. To obtain financial information write to the Southeast Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, 221 North Columbus Road, Athens, Ohio 45701.

#### ***B. Tri-County Joint Vocational School District***

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

#### ***C. Mid-East Ohio Joint Vocational School District***

The Mid-East Ohio Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of thirteen representatives from the various City, County, and Educational Service Center Boards within Perry, Guernsey, and Muskingum Counties. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Mid-East Ohio Joint Vocational School District, Cindy Nye, Treasurer, 1965 Chandlersville Road, Zanesville, Ohio, 43701.

#### ***D. Coalition of Rural and Appalachian Schools***

The Coalition of Rural and Appalachian Schools consists of over one hundred school districts and educational service centers in southeastern Ohio. The Coalition is operated by a fourteen member Board which consists of one superintendent from each County elected by the school districts and educational service centers within that County. The Council provides various services for school district and education service center administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for member personnel. The Coalition is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Coalition. The Educational Service Center paid the Coalition of Rural and Appalachian Schools \$1,290 for services provided during the year.

# Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

## Note 15 - Insurance Purchasing Pool

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

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

### B. Ohio School Plan

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

## Note 16 - Contingencies

### A. Grants

The Educational Service Center receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2006.

### B. Litigation

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

## Note 17 - Interfund Transactions

### Interfund Payables/Receivables

At June 30, 2006, the Center had short-term interfund loans which are classified as "interfund receivables/payables." An analysis of interfund balances is as follows:

	<u>Receivables</u>	<u>Payables</u>
Major Funds		
General Fund	\$ 33,563	\$ -
Miscellaneous State Grants	-	31,939
Total Major Funds	<u>33,563</u>	<u>31,939</u>
Non-Major Fund:		
SEOSERRC	-	1,624
Total All Funds	<u>\$ 33,563</u>	<u>\$ 33,563</u>

**Perry-Hocking Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**Note 17 – Interfund Transactions (Continued)**

During the year, the School District’s General Fund made advances to other funds in anticipation of intergovernmental grant revenue.

**Interfund Transfers**

Transfers made during the period ended June 30, 2006 were as follows:

Major Fund:	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	\$ 12,000	\$ -
Non-Major Fund:		
Permanent Improvement	<u>-</u>	<u>12,000</u>
Total	<u>\$ 12,000</u>	<u>\$ 12,000</u>

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

**PERRY HOCKING EDUCATION SERVICE CENTER  
PERRY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Cash Receipts	Cash Disbursements
<b><u>UNITED STATES DEPARTMENT OF EDUCATION</u></b>				
<i>Direct Award:</i>				
Fund for the Improvement of Education	U215XOSO149	84.215	\$114,314	\$114,314
<i>Passed Through Ohio Department of Education:</i>				
Adult Education State Grant Program	ABS1-2005	84.002	4,149	12,074
		84.002	<u>30,695</u>	<u>28,548</u>
Total Adult Education State Grant Program			34,844	40,622
Special Education Cluster:				
Special Education Grants to States	6BEC-2005	84.027	2,792	2,792
Special Education Preschool Grants	PGS1-2005	84.173	17,073	17,525
	PGS1-2006	84.173	<u>26,734</u>	<u>26,466</u>
Total Special Education Preschool Grants			<u>43,807</u>	<u>43,991</u>
Total Special Education Cluster			46,599	46,783
Safe and Drug Free Schools and Communities: National Programs	T4S1-2005	84.184C	11,250	12,641
Safe and Drug Free Schools and Communities State Grants	DRS1-2005	84.186		386
	DRS1-2006	84.186	<u>40,651</u>	<u>40,651</u>
Total Safe and Drug Free Schools and Communities State Grants			40,651	41,037
Twenty-First Century Community Learning Centers	T1S1-2005	84.287	96,860	101,551
	T1S1-2006	84.287	<u>279,524</u>	<u>278,805</u>
Total Twenty-First Century Community Learning Centers			376,384	380,356
Advanced Placement Program	CI667-05C1-0106	84.366	70,649	70,649
	CI667-05CJ-0106	84.366	<u>34,690</u>	<u>34,690</u>
Total Advanced Placement Program			105,339	105,339
Mathematics and Science Partnerships	3D2G-200-OSCI-04DR	84.366B	<u>15,931</u>	<u>15,931</u>
Total United States Department of Education			745,312	757,023
<b><u>United States Department of Health and Human Services</u></b>				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
State Children's Health Insurance Program - SCHIP	N/A	93.767	10,833	10,833
Medical Assistance Program - CAFS	N/A	93.778	<u>116,391</u>	<u>116,391</u>
Total U.S. Department of Health and Human Services			<u>127,224</u>	<u>127,224</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u><u>\$872,536</u></u></b>	<b><u><u>\$884,247</u></u></b>

The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule

**PERRY HOCKING EDUCATIONAL SERVICE CENTER  
PERRY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
JUNE 30, 2006**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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



# Mary Taylor, CPA

## Auditor of State

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

Perry Hocking Educational Service Center  
Perry County  
1605 Airport Road  
New Lexington, Ohio 43764

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Perry Hocking Educational Service Center, Perry County, Ohio (the Center), as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements and have issued our report thereon dated August 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Center's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Center's management dated August 15, 2007, we reported an other matter related to noncompliance we deemed immaterial.

Perry Hocking Educational Service Center  
Perry County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
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We intend this report solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

August 15, 2007



# Mary Taylor, CPA

## Auditor of State

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

Perry Hocking Educational Service Center  
Perry County  
1605 Airport Road  
New Lexington, Ohio 43764

To the Board of Education:

#### Compliance

We have audited the compliance of Perry Hocking Educational Service Center, Perry County, Ohio (the Center), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Perry Hocking Educational Service Center, Perry County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

#### Internal Control Over Compliance

The Center's management 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 Center's internal control over compliance with requirements that could directly and materially affect a major federal program 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.

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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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

August 15, 2007

**PERRY HOCKING EDUCATIONAL SERVICE CENTER  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Twenty-First Century Community Learning Centers (Title IV, Part B of the ESEA) CFDA 84.287
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None





**Mary Taylor, CPA**  
Auditor of State

**PERRY HOCKING EDUCATIONAL SERVICE CENTER**

**PERRY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 25, 2007**