



Dave Yost • Auditor of State



**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER  
HANCOCK COUNTY**

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HANCOCK COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hancock County Educational Service Center, Hancock County, Ohio (the Educational Service Center), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Educational Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Educational Service Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities the major fund, and the aggregate remaining fund information of Hancock County Educational Service Center, Hancock County, Ohio, as of June 30, 2014 and 2013, and the respective changes in financial position thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 3 to the financial statements, during the fiscal year ended June 30, 2013, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

### **Other Matters**

#### *Required Supplemental Information*

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

#### *Supplementary and Other Information*

Our audit was conducted to opine on the Educational Service Center's basic financial statements taken as a whole.

The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund presents additional analysis and is not a required part of the basic financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2015, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

February 19, 2015

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Hancock County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
Unaudited

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The discussion and analysis of Hancock County 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, 2014. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

### **Highlights**

Highlights for fiscal year 2014 are as follows:

The decrease in net position for fiscal year 2014 was \$32,294, or 29 percent.

Program specific revenues, in the form of charges for services and operating grants accounted for \$6,740,896, or 97 percent of total revenues.

### **Using the Basic Financial Statements**

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

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

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

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

The statement of net position and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2014. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

Hancock County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
Unaudited

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**Reporting the Educational Service Center as a Whole (Continued)**

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

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

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

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

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

**The Educational Service Center as a Whole**

Table 1 provides a summary of the Educational Service Center's net position for fiscal year 2014 and fiscal year 2013.

Table 1  
Net Position

	2014	Governmental Activities 2013	Change
<u>Assets:</u>			
Current and Other Assets	\$1,205,093	\$1,118,628	\$86,465
Capital Assets, Net	32,445	30,642	1,803
Total Assets	1,237,538	1,149,270	88,268
			(continued)

Hancock County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
Unaudited

Table 1  
Net Position  
(continued)

	Governmental Activities		
	2014	2013	Change
<u>Liabilities:</u>			
Current and Other Liabilities	\$766,660	\$676,700	(\$89,960)
Long-Term Liabilities	390,781	360,179	(30,602)
Total Liabilities	<u>1,157,441</u>	<u>1,036,879</u>	<u>(120,562)</u>
<u>Net Position:</u>			
Net Investment in Capital Assets	32,445	30,642	1,803
Restricted	1,205	642	563
Unrestricted	46,447	81,107	(34,660)
Total Net Position	<u>\$80,097</u>	<u>\$112,391</u>	<u>(\$32,294)</u>

The increase in current and other assets was primarily due to an increase in cash and cash equivalents not spent as of fiscal year end. The increase in current and other liabilities was largely related to accrued wages as of fiscal year end resulting from additional staff and the timing of payroll. Long-term liabilities represent future severance payments and is dependent on eligible employees and their accumulated leave balances.

Table 2 reflects the change in net position for fiscal year 2014 and fiscal year 2013.

Table 2  
Change in Net Position

	Governmental Activities		
	2014	2013	Change
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$6,159,840	\$5,146,856	\$1,012,984
Operating Grants and Contributions	581,056	546,736	34,320
Total Program Revenues	<u>6,740,896</u>	<u>5,693,592</u>	<u>1,047,304</u>
General Revenues			
Grants and Entitlements	148,624	272,625	(124,001)
Interest	2,182	3,322	(1,140)
Miscellaneous	47,369	61,103	(13,734)
Total General Revenues	<u>198,175</u>	<u>337,050</u>	<u>(138,875)</u>
Total Revenues	<u>6,939,071</u>	<u>6,030,642</u>	<u>908,429</u>
<u>Expenses:</u>			
Instruction:			
Regular	211,420	109,357	(102,063)
Special	3,045,959	1,622,994	(1,422,965)
Adult/Continuing	41,340	0	(41,340)

(continued)

Hancock County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
Unaudited

Table 2  
Change in Net Position  
(continued)

	Governmental Activities		
	2014	2013	Change
<u>Expenses:</u> (continued)			
Support Services:			
Pupils	\$1,496,760	\$1,376,745	(\$120,015)
Instructional Staff	960,309	1,819,361	859,052
Board of Education	41,646	41,191	(455)
Administration	670,765	578,690	(92,075)
Fiscal	250,790	258,347	7,557
Operation and Maintenance of Plant	134,950	82,216	(52,734)
Pupil Transportation	98,882	95,142	(3,740)
Central	13,735	16,498	2,763
Non-Instructional Services	2,247	4,327	2,080
Extracurricular Activities	2,562	2	(2,560)
Total Expenses	<u>6,971,365</u>	<u>6,004,870</u>	<u>(966,495)</u>
Increase (Decrease) in Net Position	(32,294)	25,772	(58,066)
Net Position at Beginning of Year	112,391	86,619	25,772
Net Position at End of Year	<u>\$80,097</u>	<u>\$112,391</u>	<u>(\$32,294)</u>

Program revenues were 97 percent of total revenues for fiscal year 2014 and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 89 percent of total revenues. The services being charged to the school districts involve various instruction and support services. The Educational Service Center primarily provides services to eight local school districts and one city school district in Northwest Ohio. The increase in charges for services from the prior fiscal year is the result of additional service requests from school districts. The decrease in total general revenues was primarily due to a decrease in State funding.

Total expenses increased 16 percent from the prior fiscal year due to the increased requests for services.

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

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Instruction:				
Regular	\$211,420	\$109,357	(\$990,703)	(\$771,581)
Special	3,045,959	1,622,994	(2,274,394)	(2,643,413)
Adult/Continuing	41,340	0	41,340	0
				(continued)

Hancock County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
Unaudited

Table 3  
Governmental Activities  
(continued)

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Support Services:				
Pupils	\$1,496,760	\$1,376,745	\$1,496,760	\$1,364,389
Instructional Staff	960,309	1,819,361	956,821	1,818,816
Board of Education	41,646	41,191	41,646	41,191
Administration	670,765	578,690	670,491	343,849
Fiscal	250,790	258,347	250,790	258,347
Operation and Maintenance of Plant	134,950	82,216	134,950	82,216
Pupil Transportation	98,882	95,142	(111,036)	(193,790)
Central	13,735	16,498	13,735	14,698
Non-Instructional Services	2,247	4,327	(2,493)	(3,446)
Extracurricular Activities	2,562	2	2,562	2
Total Expenses	<u>\$6,971,365</u>	<u>\$6,004,870</u>	<u>\$230,469</u>	<u>\$311,278</u>

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

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

**The Educational Service Center's Funds**

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Fund balance decreased 2 percent for the General Fund. Both revenues and expenditures increased due to the increased requests for services provided to school districts.

**Capital Assets**

At June 30, 2014, the Educational Service Center had \$32,445 invested in capital assets (net of accumulated depreciation). Additions for the fiscal year consisted of equipment. For further information regarding the Educational Service Center's capital assets, refer to Note 6 to the basic financial statements.

Hancock County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
Unaudited

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**Current Issues**

State foundation revenues are expected to decrease slightly for fiscal year 2015 due to the State funding calculation going from \$37 to \$35 per student. Service contract revenue is expected to moderately increase due to the anticipation of this decrease in State funding and the local school districts belonging to the Educational Service Center still needing services. Grant funding is expected to stay the same or minimally decrease.

**Contacting the Educational Service Center's Financial Management**

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

Hancock County Educational Service Center  
Statement of Net Position  
June 30, 2014

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,075,060
Accounts Receivable	177
Intergovernmental Receivable	124,218
Prepaid Items	5,638
Depreciable Capital Assets, Net	32,445
Total Assets	1,237,538
 <u>Liabilities:</u>	
Accounts Payable	4,209
Accrued Wages and Benefits Payable	586,707
Matured Compensated Absences Payable	14,073
Intergovernmental Payable	161,671
Long-Term Liabilities:	
Due Within One Year	27,810
Due in More Than One Year	362,971
Total Liabilities	1,157,441
 <u>Net Position:</u>	
Net Investment in Capital Assets	32,445
Restricted For:	
Other Purposes	1,205
Unrestricted	46,447
Total Net Position	\$80,097

See Accompanying Notes to Basic Financial Statements

Hancock County Educational Service Center  
Statement of Activities  
For the Fiscal Year Ended June 30, 2014

	Program Revenues		Net (Expense) Revenue and Change in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$211,420	\$987,716	\$214,407	\$990,703
Special	3,045,959	4,954,482	365,871	2,274,394
Adult/Continuing	41,340	0	0	(41,340)
Support Services:				
Pupils	1,496,760	0	0	(1,496,760)
Instructional Staff	960,309	3,488	0	(956,821)
Board of Education	41,646	0	0	(41,646)
Administration	670,765	274	0	(670,491)
Fiscal	250,790	0	0	(250,790)
Operation and Maintenance of Plant	134,950	0	0	(134,950)
Pupil Transportation	98,882	209,918	0	111,036
Central	13,735	0	0	(13,735)
Non-Instructional Services	2,247	3,962	778	2,493
Extracurricular Activities	2,562	0	0	(2,562)
Total Governmental Activities	<u>\$6,971,365</u>	<u>\$6,159,840</u>	<u>\$581,056</u>	<u>(230,469)</u>

General Revenues:

Grants and Entitlements not Restricted to Specific Programs	148,624
Interest	2,182
Miscellaneous	47,369
Total General Revenues	<u>198,175</u>
Change in Net Position	(32,294)
Net Position at Beginning of Year	112,391
Net Position at End of Year	<u>\$80,097</u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center  
Balance Sheet  
Governmental Funds  
June 30, 2014

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,073,749	\$0	\$1,073,749
Accounts Receivable	177	0	177
Interfund Receivable	25,217	0	25,217
Intergovernmental Receivable	93,166	31,052	124,218
Prepaid Items	5,638	0	5,638
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	1,311	0	1,311
Total Assets	\$1,199,258	\$31,052	\$1,230,310
<u>Liabilities</u>			
Accounts Payable	\$2,788	\$1,421	\$4,209
Accrued Wages and Benefits Payable	583,944	2,763	586,707
Matured Compensated Absences Payable	14,073	0	14,073
Interfund Payable	0	25,217	25,217
Intergovernmental Payable	161,225	446	161,671
Total Liabilities	762,030	29,847	791,877
<u>Fund Balances:</u>			
Nonspendable	6,949	0	6,949
Restricted	0	1,205	1,205
Assigned	37,221	0	37,221
Unassigned	393,058	0	393,058
Total Fund Balances	437,228	1,205	438,433
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$1,199,258	\$31,052	\$1,230,310

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center  
Reconciliation of Total Governmental Fund Balances  
to Net Position of Governmental Activities  
June 30, 2014

Total Governmental Fund Balances \$438,433

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

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the funds. 32,445

Compensated absences are not due and payable in the current  
period and, therefore, are not reported in the funds. (390,781)

Net Position of Governmental Activities \$80,097

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2014

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Intergovernmental	\$515,273	\$204,621	\$719,894
Interest	2,182	0	2,182
Tuition and Fees	2,816,009	0	2,816,009
Customer Services	3,344,519	0	3,344,519
Gifts and Donations	0	9,786	9,786
Miscellaneous	47,369	0	47,369
Total Revenues	<u>6,725,352</u>	<u>214,407</u>	<u>6,939,759</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	85,781	124,316	210,097
Special	3,038,730	4,786	3,043,516
Adult/Continuing	0	41,340	41,340
Support Services:			
Pupils	1,477,248	0	1,477,248
Instructional Staff	919,872	29,737	949,609
Board of Education	41,646	0	41,646
Administration	680,786	800	681,586
Fiscal	245,844	0	245,844
Operation and Maintenance of Plant	134,476	0	134,476
Pupil Transportation	91,660	7,000	98,660
Central	13,735	0	13,735
Non-Instructional Services	2,247	0	2,247
Extracurricular Activities	2,562	0	2,562
Total Expenditures	<u>6,734,587</u>	<u>207,979</u>	<u>6,942,566</u>
Changes in Fund Balances	(9,235)	6,428	(2,807)
Fund Balances at Beginning of Year (Deficit)	446,463	(5,223)	441,240
Fund Balances at End of Year	<u>\$437,228</u>	<u>\$1,205</u>	<u>\$438,433</u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center  
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
 of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2014

Changes in Fund Balances - Total Governmental Funds (\$2,807)

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

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

Capital Outlay - Depreciable Capital Assets	7,508	
Depreciation	<u>(5,705)</u>	1,803

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

Tuition and Fees		(688)
------------------	--	-------

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

(30,602)

Change in Net Position of Governmental Activities

(\$32,294)

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2014

<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$73,700</u></u>
 <u>Liabilities:</u>	
Undistributed Assets	\$72,475
Due to Students	<u>1,225</u>
 Total Liabilities	 <u><u>\$73,700</u></u>

See Accompanying Notes to the Basic Financial Statements

**Note 1 - Reporting Entity**

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

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

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

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

The Educational Service Center participates in three jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Schools of Ohio Risk Sharing Authority, Hancock County Schools Health Benefit Fund, and the Optimal Health Initiatives Workers’ Compensation Group Rating Plan. Information about these organizations is presented in Notes 15 and 16 to the basic financial statements.

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

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

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

**A. Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide financial statements, including a statement of net position 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 position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the Educational Service Center that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the Educational Service Center has no business-type activities.

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

Hancock County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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

**Governmental Funds**

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

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

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

**Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center did not have any trust funds in fiscal year 2014. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for non-instructional faculty related activities, student-managed activities, and monies held for the Family First Council.

**C. Measurement Focus**

**Government-Wide Financial Statements**

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

**Fund Financial Statements**

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

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

**D. Basis of Accounting**

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

**Revenues - Exchange and Nonexchange Transactions**

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

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

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. The Educational Service Center did not report any deferred outflows of resources for fiscal year 2014.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Educational Service Center did not report any deferred inflows of resources for fiscal year 2014.

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

Expenses/Expenditures

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

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

**E. Cash and Investments**

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

During fiscal year 2014, investments consisted of STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share, which is the price the investment could be sold for on June 30, 2014.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2014 was \$2,182, which includes \$183 assigned from other Educational Service Center funds.

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

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2014, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**G. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or are imposed by law through constitutional provisions. Unclaimed monies that have a legal restriction on their expenditure are reported as restricted.

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

**H. Capital Assets**

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

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

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

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

**I. Interfund Assets/Liabilities**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivables/Payables”. Interfund balances within governmental activities are eliminated on the statement of net position.

**J. Compensated Absences**

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

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

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “Matured Compensated Absences Payable” in the fund from which the employees who have accumulated unpaid leave are paid.

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Net Position**

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted net position represents federal and state grants. The Educational Service Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**M. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions.

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Governors. The committed amounts cannot be used for any other purpose unless the Board of Governors removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Governors. The Board of Governors has authorized the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Educational Service Center first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

**N. Estimates**

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

**Note 3 - Deposits and Investments**

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

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

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

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

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

Hancock County Educational Service Center  
Notes to the Basic Financial Statements  
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**Note 3 - Deposits and Investments** (continued)

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

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

Investments

As of June 30, 2014, the Educational Service Center had the following investment:

	Fair Value	Maturity
STAR Ohio	\$648,835	51 days average

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

Hancock County Educational Service Center  
Notes to the Basic Financial Statements  
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**Note 4 - State Funding**

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

The Educational Service Center also receives funding from the State Department of Education, in the amount of \$37 multiplied by the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Educational Service Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the school districts served by the Educational Service Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Educational Service Center.

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

**Note 5 - Receivables**

Receivables at June 30, 2014, included accounts, interfund, and intergovernmental receivables. All receivables are considered collectible in full and within one year due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund	
Various School Districts	\$93,166
Other Governmental Funds	
Miscellaneous State Grants	31,052
Total Intergovernmental Receivables	<u>\$124,218</u>

Hancock County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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**Note 6 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance at 6/30/13	Additions	Reductions	Balance at 6/30/14
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	\$61,711	\$0	\$0	\$61,711
Furniture, Fixtures, and Equipment	180,032	7,508	(2,331)	185,209
Total Depreciable Capital Assets	<u>241,743</u>	<u>7,508</u>	<u>(2,331)</u>	<u>246,920</u>
Less Accumulated Depreciation				
Buildings and Building Improvements	(45,543)	(995)	0	(46,538)
Furniture, Fixtures, and Equipment	(165,558)	(4,710)	2,331	(167,937)
Total Accumulated Depreciation	<u>(211,101)</u>	<u>(5,705)</u>	<u>2,331</u>	<u>(214,475)</u>
Governmental Activities Capital Assets, Net	<u>\$30,642</u>	<u>\$1,803</u>	<u>\$0</u>	<u>\$32,445</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$1,013
Special		3,178
Support Services:		
Pupils		629
Instructional Staff		218
Administration		241
Fiscal		426
Total Depreciation Expense		<u>\$5,705</u>

**Note 7 - Interfund Assets/Liabilities**

At June 30, 2014, the General Fund had an interfund receivable, in the amount of \$25,217, from other governmental funds for short-term loans made to those funds.

Hancock County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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**Note 8 - Risk Management**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by the Schools of Ohio Risk Sharing Authority

General Liability

Per Occurrence \$12,000,000

Total per Year 14,000,000

Auto Liability 12,000,000

Commercial Property 483,234

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

For fiscal year 2014, the Educational Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

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

The Educational Service Center participates in the Optimal Health Initiatives Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**Note 9 - Contractual Commitments**

At fiscal year end, the General Fund had \$32,843 of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2015.

**Note 10 - Defined Benefit Pension Plans**

**A. State Teachers Retirement System**

Plan Description - The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the STRS Ohio Board upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased 1 percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Educational Service Center's required contribution to STRS Ohio for the DBP and for the defined benefit portion of the CP were \$420,274 and \$14,676 for the fiscal year ended June 30, 2014, \$367,546 and \$21,243 for the fiscal year ended June 30, 2013, \$351,871 and \$16,462 for the fiscal year ended June 30, 2012. For fiscal year 2014, 83 percent has been contributed for both the DBP and the CP, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

**Note 10 - Defined Benefit Pension Plans** (continued)

The contribution to STRS Ohio for the DCP for fiscal year 2014 was \$5,785 made by the Educational Service Center and \$4,546 made by the plan members. In addition, member contributions of \$11,531 were made for fiscal year 2014 for the defined contribution portion of the CP.

**B. School Employees Retirement System**

Plan Description - The Educational Service Center participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirement of plan members and employers is established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the system's funds (pension trust fund, death benefit fund, Medicare B fund, and health care fund). For the fiscal year ended June 30, 2014, the allocation to pension and death benefits was 13.1 percent. The remaining .9 percent of the 14 percent employer contribution rate was allocated to the Medicare B and health care funds. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013, and 2012 was \$183,501, \$166,420, and \$154,924, respectively. For fiscal year 2014, 81 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2014, two of the Board of Governors members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 11 - Postemployment Benefits**

**A. State Teachers Retirement System**

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

**Note 11 - Postemployment Benefits** (continued)

Funding Policy - Chapter 3307 of the Ohio Revised Code authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2014, 2013, and 2012 was \$33,903, \$29,913, and \$28,477, respectively. For fiscal year 2014, 83 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012. The STRS Board voted to discontinue the current 1 percent allocation to the Health Care Plan effective July 1, 2014.

**B. School Employees Retirement System**

Plan Description - The Educational Service Center participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2014, .14 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2014, this amount was \$20,250. For fiscal year 2014, the Educational Service Center paid \$23,153 in surcharge.

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

The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2014, 2013, and 2012 was \$1,961, \$2,033, and \$6,709, respectively. For fiscal year 2014, 81 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2014, this actuarially required allocation was .76 percent of covered payroll. The Educational Service Center's contribution for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 was \$10,646, \$9,401, and \$9,149, respectively. For fiscal year 2014, 81 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

**Note 12 - Other Employee Benefits**

**A. Compensated Absences**

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

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

**B. Health Care Benefits**

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

**Note 13 - Long-Term Obligations**

Changes in the Educational Service Center’s long-term obligations during fiscal year 2014 were as follows:

	<u>Balance at</u> <u>6/30/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>6/30/14</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental Activities					
Compensated Absences	\$360,179	\$38,199	\$7,597	\$390,781	\$27,810

Compensated absences will be paid from the General Fund.

**Note 14 - Fund Balance**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds.

Hancock County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014

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**Note 14 - Fund Balance** (continued)

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Other Governmental	Total Governmental Funds
Nonspendable for:			
Prepaid Items	\$5,638	\$0	\$5,638
Unclaimed Monies	1,311	0	1,311
Total Nonspendable	6,949	0	6,949
Restricted for:			
Regular Instruction	0	1,205	1,205
Assigned for:			
Educational Activities	1,990	0	1,990
Non-Instructional Services	5,892	0	5,892
Unpaid Obligations	29,339	0	29,339
Total Assigned	37,221	0	37,221
Unassigned	393,058	0	393,058
Total Fund Balance	\$437,228	\$1,205	\$438,433

**Note 15 - Jointly Governed Organizations**

**A. Northwest Ohio Area Computer Services Cooperative**

The Educational Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Auglaize, Hancock, Hardin, Lucas, Mercer, Paulding, Putnam, Seneca, Van Wert, and Wood Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county. During fiscal year 2014, the Educational Service Center paid \$5,688 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

**Note 15 - Jointly Governed Organizations** (continued)

**B. Millstream Career and Technology Center**

The Millstream Career and Technology Center is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Superintendents from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, 1100 Broad Avenue, Findlay Ohio 45840.

**C. Hancock County Local Professional Development Committee**

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

**Note 16 - Insurance Pools**

**A. Schools of Ohio Risk Sharing Authority**

The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a nine member board consisting of Superintendents, Treasurers, and Business Managers. Willis Pooling is contracted to provide reinsurance brokerage, underwriting, rating, billing, consulting services, and establishing agreements between SORSA and its members. Financial information can be obtained by contacting SORSA, 8050 North High Street, Suite 160, Columbus, Ohio 43235-6483.

**B. Hancock County Schools Health Benefit Fund**

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

**Note 16 - Insurance Pools** (continued)

**C. Optimal Health Initiatives Workers' Compensation Group Rating Plan**

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The plan is offered by the Optimal Health Initiatives, and Sheakley UniServices, Inc. is the Third Party Administrator. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**Notes 17 - Contingencies**

**A. Grants**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2014.

**B. Litigation**

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

Hancock County Educational Service Center  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Intergovernmental			\$ 515,273	
Interest			2,182	
Tuition and Fees			2,831,134	
Customer Services			3,397,666	
Miscellaneous			46,359	
Total Revenues			<u>6,792,614</u>	
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	\$ 91,001	\$ 94,602	79,837	\$ 14,765
Special	2,066,533	3,087,602	2,879,251	208,351
Support Services:				
Pupils	1,467,481	1,483,716	1,462,262	21,454
Instructional Staff	1,969,513	1,084,058	1,046,234	37,824
Board of Education	49,600	49,600	42,204	7,396
Administration	674,515		675,099	(675,099)
Fiscal	253,934	253,934	243,914	10,020
Operation and Maintenance of Plant	90,650	154,275	134,658	19,617
Pupil Transportation	103,550	103,550	91,467	12,083
Central	19,925	19,925	13,798	6,127
Non-Instructional Services	11,775	11,775	2,247	9,528
Extracurricular Activities	2,608	2,608	2,562	46
Total Expenditures	<u>6,801,085</u>	<u>6,345,645</u>	<u>6,673,533</u>	<u>(327,888)</u>
Excess of Revenues Over (Under) Expenditures	(6,801,085)	(6,345,645)	119,081	6,464,726
<u>Other Financing Sources:</u>				
Refund of Prior Year Expenditures	<u>0</u>	<u>0</u>	<u>11,574</u>	<u>11,574</u>
Changes in Fund Balance	(6,801,085)	(6,345,645)	130,655	6,476,300
Fund Balance at Beginning of Year	918,302	918,302	918,302	0
Prior Year Encumbrances Appropriated	\$ 18,477	\$ 18,477	18,477	0
Fund Balance at End of Year			<u>\$ 1,067,434</u>	<u>\$ 6,476,300</u>

See Accompanying Notes to the Supplemental Section

**Note 1 - Budgetary Process**

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

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

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

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

**Note 2 - Budgetary Basis of Accounting**

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

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

Hancock County Educational Service Center  
Notes to the Supplemental Section  
For the Fiscal Year Ended June 30, 2014

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**Note 2 - Budgetary Basis of Accounting** (continued)

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

	Change in Fund Balance	General Fund
GAAP Basis		(\$9,235)
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals:		
Accrued FY 2013, Received in Cash FY 2014		172,179
Accrued FY 2014, Not Yet Received in Cash		(93,343)
Expenditure Accruals:		
Accrued FY 2013, Paid in Cash FY 2014		(667,611)
Accrued FY 2014, Not Yet Paid in Cash		762,030
Prepaid Items		(522)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)		(32,843)
Budget Basis		\$130,655

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Hancock County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2013  
Unaudited

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The discussion and analysis of Hancock County 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, 2013. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

### **Highlights**

Highlights for fiscal year 2013 are as follows:

The increase in net position for fiscal year 2013 was \$25,772, or 30 percent.

Program specific revenues, in the form of charges for services and operating grants accounted for \$5,693,592, or 94 percent of total revenues.

### **Using the Basic Financial Statements**

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

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

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

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

The statement of net position and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2013. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

Hancock County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2013  
Unaudited

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**Reporting the Educational Service Center as a Whole (Continued)**

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

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

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

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

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

**The Educational Service Center as a Whole**

Table 1 provides a summary of the Educational Service Center's net position for fiscal year 2013 and fiscal year 2012.

Table 1  
Net Position

	2013	Governmental Activities 2012	Change
<u>Assets:</u>			
Current and Other Assets	\$1,118,628	\$1,070,729	\$47,899
Capital Assets, Net	30,642	36,177	(5,535)
Total Assets	1,149,270	1,106,906	42,364
			(continued)

Hancock County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2013  
Unaudited

Table 1  
Net Position  
(continued)

	Governmental Activities		
	2013	2012	Change
<u>Liabilities:</u>			
Current and Other Liabilities	\$676,700	\$668,800	(\$7,900)
Long-Term Liabilities	360,179	351,487	(8,692)
Total Liabilities	<u>1,036,879</u>	<u>1,020,287</u>	<u>(16,592)</u>
<u>Net Position:</u>			
Net Investment in Capital Assets	30,642	36,177	(5,535)
Restricted	642	11,685	(11,043)
Unrestricted	81,107	38,757	42,350
Total Net Position	<u>\$112,391</u>	<u>\$86,619</u>	<u>\$25,772</u>

As noted in the above table, there was a significant increase in net position from the prior fiscal year. The increase in current and other assets was primarily due to an increase in receivables resulting from increased services to school districts and the timing those payments were received. This increase is also reflected in the increase in unrestricted net position. The decrease in net capital assets and net investment in capital assets is due to asset disposals and annual depreciation expense.

Table 2 reflects the change in net position for fiscal year 2013 and fiscal year 2012.

Table 2  
Change in Net Position

	Governmental Activities		
	2013	2012	Change
<u>Revenues:</u>			
<u>Program Revenues</u>			
Charges for Services	\$5,146,856	\$4,759,235	\$387,621
Operating Grants and Contributions	546,736	553,072	(6,336)
Total Program Revenues	<u>5,693,592</u>	<u>5,312,307</u>	<u>381,285</u>
<u>General Revenues</u>			
Grants and Entitlements	272,625	322,661	(50,036)
Interest	3,322	4,159	(837)
Miscellaneous	61,103	60,111	992
Total General Revenues	<u>337,050</u>	<u>386,931</u>	<u>(49,881)</u>
Total Revenues	<u>6,030,642</u>	<u>5,699,238</u>	<u>331,404</u>
<u>Expenses:</u>			
<u>Instruction:</u>			
Regular	109,357	110,483	1,126
Special	1,622,994	1,479,768	(143,226)

(continued)

Hancock County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2013  
Unaudited

Table 2  
Change in Net Position  
(continued)

	Governmental Activities		
	2013	2012	Change
<u>Expenses:</u> (continued)			
Support Services:			
Pupils	\$1,376,745	\$1,300,118	(\$76,627)
Instructional Staff	1,819,361	1,719,965	(99,396)
Board of Education	41,191	46,669	5,478
Administration	578,690	557,298	(21,392)
Fiscal	258,347	228,952	(29,395)
Operation and Maintenance of Plant	82,216	79,695	(2,521)
Pupil Transportation	95,142	86,811	(8,331)
Central	16,498	4,740	(11,758)
Non-Instructional Services	4,327	4,908	581
Extracurricular Activities	2	1,129	1,127
Total Expenses	<u>6,004,870</u>	<u>5,620,536</u>	<u>(384,334)</u>
Increase in Net Position	25,772	78,702	(52,930)
Net Position at Beginning of Year	86,619	7,917	78,702
Net Position at End of Year	<u>\$112,391</u>	<u>\$86,619</u>	<u>\$25,772</u>

Program revenues were 94 percent of total revenues for fiscal year 2013 and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 85 percent of total revenues. The services being charged to the school districts involve various instruction and support services. The Educational Service Center primarily provides services to eight local school districts and one city school district in Northwest Ohio. The increase in charges for services from the prior fiscal year is the result of additional service requests from school districts. The decrease in total general revenues was primarily due to a decrease in State funding.

Total expenses increased 7 percent from the prior fiscal year due to the increased requests for services.

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

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Instruction:				
Regular	\$109,357	\$110,483	(\$771,581)	(\$717,421)
Special	1,622,994	1,479,768	(2,643,413)	(2,506,407)
				(continued)

Hancock County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2013  
Unaudited

Table 3  
Governmental Activities  
(continued)

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Support Services:				
Pupils	\$1,376,745	\$1,300,118	\$1,364,389	\$1,300,118
Instructional Staff	1,819,361	1,719,965	1,818,816	1,710,661
Board of Education	41,191	46,669	41,191	46,669
Administration	578,690	557,298	343,849	341,262
Fiscal	258,347	228,952	258,347	228,952
Operation and Maintenance of Plant	82,216	79,695	82,216	79,695
Pupil Transportation	95,142	86,811	(193,790)	(177,490)
Central	16,498	4,740	14,698	4,740
Non-Instructional Services	4,327	4,908	(3,446)	(3,679)
Extracurricular Activities	2	1,129	2	1,129
Total Expenses	<u>\$6,004,870</u>	<u>\$5,620,536</u>	<u>\$311,278</u>	<u>\$308,229</u>

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

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

**The Educational Service Center's Funds**

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Fund balance increased 13 percent for the General Fund. Both revenues and expenditures increased due to the increased requests for services provided to school district.

**Capital Assets**

At June 30, 2013, the Educational Service Center had \$30,642 invested in capital assets (net of accumulated depreciation). Additions for the year consisted of equipment. Disposals for the year included equipment and vehicles. For further information regarding the Educational Service Center's capital assets, refer to Note 8 to the basic financial statements.

Hancock County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2013  
Unaudited

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**Current Issues**

Due to current economic conditions and the State budget, State foundation revenues are expected remain level minus the loss of supervisory monies and preschool unit funding for fiscal year 2014. Service contract revenue is expected to increase due to the anticipation of supervisory and preschool services still being provided to the local school districts. Depending on the level of contracted service requests for the remaining services, the revenue from the local school districts served by the Educational Service Center is expected to remain the same with possibly a moderate increase. Grant funding is expected to stay the same or minimally decrease.

**Contacting the Educational Service Center's Financial Management**

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

Hancock County Educational Service Center  
Statement of Net Position  
June 30, 2013

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$936,164
Intergovernmental Receivable	177,348
Prepaid Items	5,116
Depreciable Capital Assets, Net	30,642
Total Assets	1,149,270
 <u>Liabilities:</u>	
Accounts Payable	8,963
Accrued Wages and Benefits Payable	526,689
Intergovernmental Payable	141,048
Long-Term Liabilities:	
Due Within One Year	19,817
Due in More Than One Year	340,362
Total Liabilities	1,036,879
 <u>Net Position:</u>	
Net Investment in Capital Assets	30,642
Restricted For:	
Other Purposes	642
Unrestricted	81,107
Total Net Position	\$112,391

See Accompanying Notes to Basic Financial Statements

Hancock County Educational Service Center  
Statement of Activities  
For the Fiscal Year Ended June 30, 2013

	Program Revenues		Net (Expense) Revenue and Change in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$109,357	\$822,256	\$58,682	\$771,581
Special	1,622,994	3,784,848	481,559	2,643,413
Support Services:				
Pupils	1,376,745	12,356	0	(1,364,389)
Instructional Staff	1,819,361	0	545	(1,818,816)
Board of Education	41,191	0	0	(41,191)
Administration	578,690	234,841	0	(343,849)
Fiscal	258,347	0	0	(258,347)
Operation and Maintenance of Plant	82,216	0	0	(82,216)
Pupil Transportation	95,142	288,932	0	193,790
Central	16,498	0	1,800	(14,698)
Non-Instructional Services	4,327	3,623	4,150	3,446
Extracurricular Activities	2	0	0	(2)
Total Governmental Activities	<u>\$6,004,870</u>	<u>\$5,146,856</u>	<u>\$546,736</u>	<u>(311,278)</u>

General Revenues:

Grants and Entitlements not Restricted to Specific Programs	272,625
Interest	3,322
Miscellaneous	61,103
Total General Revenues	<u>337,050</u>
Change in Net Position	25,772
Net Position at Beginning of Year	86,619
Net Position at End of Year	<u>\$112,391</u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center  
 Balance Sheet  
 Governmental Funds  
 June 30, 2013

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$934,524	\$395	\$934,919
Interfund Receivable	1,010	0	1,010
Intergovernmental Receivable	172,867	4,481	177,348
Prepaid Items	5,116	0	5,116
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	1,245	0	1,245
Total Assets	<u>\$1,114,762</u>	<u>\$4,876</u>	<u>\$1,119,638</u>
<u>Liabilities</u>			
Accounts Payable	\$8,963	\$0	\$8,963
Accrued Wages and Benefits Payable	518,200	8,489	526,689
Interfund Payable	0	1,010	1,010
Intergovernmental Payable	140,448	600	141,048
Total Liabilities	<u>667,611</u>	<u>10,099</u>	<u>677,710</u>
<u>Deferred Inflows of Resources</u>			
Unavailable Revenue	<u>688</u>	<u>0</u>	<u>688</u>
<u>Fund Balances:</u>			
Nonspendable	6,361	0	6,361
Restricted	0	642	642
Assigned	21,872	0	21,872
Unassigned (Deficit)	418,230	(5,865)	412,365
Total Fund Balances (Deficit)	<u>446,463</u>	<u>(5,223)</u>	<u>441,240</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$1,114,762</u>	<u>\$4,876</u>	<u>\$1,119,638</u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center  
Reconciliation of Total Governmental Fund Balances  
to Net Position of Governmental Activities  
June 30, 2013

Total Governmental Fund Balances	\$441,240
Amounts reported for governmental activities on the statement of net position are different because of the following:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	30,642
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	
Intergovernmental Receivable	688
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(360,179)</u>
Net Position of Governmental Activities	<u><u>\$112,391</u></u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2013

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>			
Intergovernmental	\$758,334	\$61,027	\$819,361
Interest	3,322	0	3,322
Tuition and Fees	2,370,961	0	2,370,961
Customer Services	2,775,207	0	2,775,207
Miscellaneous	61,103	0	61,103
Total Revenues	<u>5,968,927</u>	<u>61,027</u>	<u>6,029,954</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	74,212	33,792	108,004
Special	1,621,563	0	1,621,563
Support Services:			
Pupils	1,387,299	0	1,387,299
Instructional Staff	1,768,831	37,356	1,806,187
Board of Education	41,191	0	41,191
Administration	576,329	800	577,129
Fiscal	254,632	0	254,632
Operation and Maintenance of Plant	81,782	0	81,782
Pupil Transportation	91,547	482	92,029
Central	14,698	1,800	16,498
Non-Instructional Services	4,327	0	4,327
Extracurricular Activities	2	0	2
Total Expenditures	<u>5,916,413</u>	<u>74,230</u>	<u>5,990,643</u>
Changes in Fund Balances	52,514	(13,203)	39,311
Fund Balances at Beginning of Year	<u>393,949</u>	<u>7,980</u>	<u>401,929</u>
Fund Balances at End of Year (Deficit)	<u>\$446,463</u>	<u>(\$5,223)</u>	<u>\$441,240</u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center  
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
 of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2013

Changes in Fund Balances - Total Governmental Funds \$39,311

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

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

Capital Outlay - Depreciable Capital Assets	10,632	
Depreciation	<u>(6,065)</u>	4,567

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of resulting in a loss on disposal of capital assets on the statement of activities. (10,102)

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

Tuition and Fees		688
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Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (8,692)

Change in Net Position of Governmental Activities \$25,772

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2013

<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$41,377</u></u>
 <u>Liabilities:</u>	
Undistributed Assets	\$40,992
Due to Students	<u>385</u>
 Total Liabilities	 <u><u>\$41,377</u></u>

See Accompanying Notes to the Basic Financial Statements

**Note 1 - Reporting Entity**

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

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

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

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

The Educational Service Center participates in three jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Schools of Ohio Risk Sharing Authority, Hancock County Schools Health Benefit Fund, and the Northern Buckeye Education Council Workers’ Compensation Group Rating Plan. Information about these organizations is presented in Notes 16 and 17 to the basic financial statements.

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

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

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

**A. Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide financial statements, including a statement of net position 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 position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the Educational Service Center that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the Educational Service Center has no business-type activities.

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

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

**Governmental Funds**

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

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

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

**Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center did not have any trust funds in fiscal year 2013. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for non-instructional faculty related activities, student-managed activities, and monies held for the Family First Council.

**C. Measurement Focus**

**Government-Wide Financial Statements**

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

**Fund Financial Statements**

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

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

**D. Basis of Accounting**

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

**Revenues - Exchange and Nonexchange Transactions**

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

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

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. The Educational Service Center did not report any deferred outflows of resources for fiscal year 2013.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Educational Service Center, deferred inflows of resources consists of unavailable revenue. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes intergovernmental revenue, including grants. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available.

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

Expenses/Expenditures

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

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

**E. Cash and Investments**

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

During fiscal year 2013, investments consisted of STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share, which is the price the investment could be sold for on June 30, 2013.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2013 was \$3,322, which includes \$285 assigned from other Educational Service Center funds.

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

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**G. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or are imposed by law through constitutional provisions. Unclaimed monies that have a legal restriction on their expenditure are reported as restricted.

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

**H. Capital Assets**

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

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

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

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

**I. Interfund Assets/Liabilities**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net position.

**J. Compensated Absences**

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

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Net Position**

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

**M. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions.

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Governors. The committed amounts cannot be used for any other purpose unless the Board of Governors removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Governors. The Board of Governors has authorized the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Educational Service Center first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

**N. Estimates**

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

**Note 3 - Change in Accounting Principles**

For fiscal year 2013, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", Statement No. 61, "The Financial Reporting Entity: Omnibus", "Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements", Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", Statement No. 65, "Items Previously Reported as Assets and Liabilities", and Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62".

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements which are a type of public-public or public-private partnership. The implementation of this statement did not result in any change to the Educational Service Center's financial statements.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and the financial reporting entity display and disclosure requirements. The implementation of this statement did not result in any change to the Educational Service Center's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change to the Educational Service Center's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related note disclosures. These changes were incorporated in the Educational Service Center's fiscal year 2013 financial statements; however, there was no effect on beginning net position and/or fund balance.

**Note 3 - Change in Accounting Principles** (continued)

GASB Statement No. 65 properly classifies certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets or liabilities as inflows of resources (revenues) or outflows of resources (expenses or expenditures). These changes were incorporated in the Educational Service Center's fiscal year 2013 financial statements; however, there was no effect on beginning net position and/or fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and, thereby, enhance the usefulness of the financial reports. The implementation of this statement did not result in any change to the Educational Service Center's financial statements.

**Note 4 - Accountability**

At June 30, 2013, the Alternative School Program special revenue fund had a deficit fund balance of \$5,865, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**Note 5 - Deposits and Investments**

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

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

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

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

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

Hancock County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2013

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**Note 5 - Deposits and Investments** (continued)

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

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

Investments

As of June 30, 2013, the Educational Service Center had the following investment:

	Fair Value	Maturity
STAR Ohio	\$711,743	58 days average

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

Hancock County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2013

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**Note 6 - State Funding**

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

The Educational Service Center also receives funding from the State Department of Education, in the amount of \$37 multiplied by the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Educational Service Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the school districts served by the Educational Service Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Educational Service Center.

Due to provisions in the State budget bill, the per pupil funding in the permanent section of law did not apply to fiscal years 2012 and 2013. Instead, educational service centers received a percentage of the funding that they received the previous year. For fiscal year 2013, educational service centers received 85 percent of the funding they received in fiscal year 2012.

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

**Note 7 - Receivables**

Receivables at June 30, 2013, consisted of interfund and intergovernmental receivables. All receivables are considered collectible in full and within one year due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Hancock County Commissioners	\$4,434
Ohio Bureau of Workers' Compensation	11,774
Various School Districts	156,659
Total General Fund	172,867
Other Governmental Funds	
Miscellaneous State Grants	4,481
Total Intergovernmental Receivables	\$177,348

Hancock County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2013

**Note 8 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance at 6/30/12	Additions	Reductions	Balance at 6/30/13
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	\$61,711	\$0	\$0	\$61,711
Furniture, Fixtures, and Equipment	185,780	10,632	(16,380)	180,032
Vehicles	13,500	0	(13,500)	0
Total Depreciable Capital Assets	260,991	10,632	(29,880)	241,743
Less Accumulated Depreciation				
Buildings and Building Improvements	(44,548)	(995)	0	(45,543)
Furniture, Fixtures, and Equipment	(176,819)	(5,070)	16,331	(165,558)
Vehicles	(3,447)	0	3,447	0
Total Accumulated Depreciation	(224,814)	(6,065)	19,778	(211,101)
Governmental Activities Capital Assets, Net	\$36,177	\$4,567	(\$10,102)	\$30,642

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,209
Special	1,806
Support Services:	
Pupils	728
Instructional Staff	509
Administration	357
Fiscal	1,456
Total Depreciation Expense	\$6,065

**Note 9 - Interfund Assets/Liabilities**

At June 30, 2013, the General Fund had an interfund receivable, in the amount of \$1,010, from other governmental funds for short-term loans made to those funds.

**Note 10 - Risk Management**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by the Schools of Ohio Risk Sharing Authority	
General Liability	
Per Occurrence	\$12,000,000
Total per Year	14,000,000
Auto Liability	12,000,000
Commercial Property	554,804

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

For fiscal year 2013, the Educational Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

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

The Educational Service Center participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**Note 11 - Defined Benefit Pension Plans**

**A. State Teachers Retirement System**

Plan Description - The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the STRS Ohio Board upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased 1 percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Educational Service Center's required contribution to STRS Ohio for the DBP and for the defined benefit portion of the CP were \$367,546 and \$21,243 for the fiscal year ended June 30, 2013, \$351,871 and \$16,462 for the fiscal year ended June 30, 2012, \$325,155 and \$20,470 for the fiscal year ended June 30, 2011. For fiscal year 2013, 82 percent has been contributed for both the DBP and the CP, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

**Note 11 - Defined Benefit Pension Plans** (continued)

The contribution to STRS Ohio for the DCP for fiscal year 2013 was \$74 made by the Educational Service Center and \$53 made by the plan members. In addition, member contributions of \$15,173 were made for fiscal year 2013 for the defined contribution portion of the CP.

**B. School Employees Retirement System**

Plan Description - The Educational Service Center participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirement of plan members and employers is established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the system's funds (pension trust fund, death benefit fund, Medicare B fund, and health care fund). For the fiscal year ended June 30, 2013, the allocation to pension and death benefits was 13.1 percent. The remaining .9 percent of the 14 percent employer contribution rate was allocated to the Medicare B and health care funds. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012, and 2011 was \$166,420, \$154,924, and \$137,939, respectively. For fiscal year 2013, 84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2013, two of the Board of Governors members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 12 - Postemployment Benefits**

**A. State Teachers Retirement System**

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

**Note 12 - Postemployment Benefits** (continued)

Funding Policy - Chapter 3307 of the Ohio Revised Code authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2013, 2012, and 2011 was \$29,913, \$28,477, and \$26,590, respectively. For fiscal year 2013, 82 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

**B. School Employees Retirement System**

Plan Description - The Educational Service Center participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, .16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2013, this amount was \$20,525. For fiscal year 2013, the Educational Service Center paid \$19,966 in surcharge.

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

The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2013, 2012, and 2011 was \$2,033, \$6,709, and \$16,702, respectively. For fiscal year 2013, 84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2013, this actuarially required allocation was .74 percent of covered payroll. The Educational Service Center's contribution for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 was \$9,401, \$9,149, and \$8,877, respectively. For fiscal year 2013, 84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Hancock County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2013

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**Note 13 - Other Employee Benefits**

**A. Compensated Absences**

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

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

**B. Health Care Benefits**

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

**Note 14 - Long-Term Obligations**

Changes in the Educational Service Center's long-term obligations during fiscal year 2013 were as follows:

	<u>Balance at 6/30/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/13</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Compensated Absences	\$351,487	\$40,618	\$31,926	\$360,179	\$19,817

Compensated absences will be paid from the General Fund.

**Note 15 - Fund Balance**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds.

Hancock County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2013

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**Note 15 - Fund Balance** (continued)

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Other Governmental	Total Governmental Funds
Nonspendable for:			
Prepaid Items	\$5,116	\$0	\$5,116
Unclaimed Monies	1,245	0	1,245
Total Nonspendable	6,361	0	6,361
Restricted for:			
Regular Instruction	0	247	247
Special Instruction	0	395	395
Total Restricted	0	642	642
Assigned for:			
Educational Activities	1,990	0	1,990
Non-Instructional Services	7,149	0	7,149
Unpaid Obligations	12,733	0	12,733
Total Assigned	21,872	0	21,872
Unassigned (Deficit)	418,230	(5,865)	412,365
Total Fund Balance (Deficit)	\$446,463	(\$5,223)	\$441,240

**Note 16 - Jointly Governed Organizations**

**A. Northwest Ohio Area Computer Services Cooperative**

The Educational Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Auglaize, Hancock, Hardin, Lucas, Mercer, Paulding, Putnam, Seneca, Van Wert, and Wood Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county. During fiscal year 2013, the Educational Service Center paid \$7,981 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

**Note 16 - Jointly Governed Organizations** (continued)

**B. Millstream Career and Technology Center**

The Millstream Career and Technology Center is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Superintendents from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, 1100 Broad Avenue, Findlay Ohio 45840.

**C. Hancock County Local Professional Development Committee**

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

**Note 17 - Insurance Pools**

**A. Schools of Ohio Risk Sharing Authority**

The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a nine member board consisting of Superintendents, Treasurers, and Business Managers. Willis Pooling is contracted to provide reinsurance brokerage, underwriting, rating, billing, consulting services, and establishing agreements between SORSA and its members. York Risk Services group provides claims processing services. Financial information can be obtained by contacting SORSA, 8050 North High Street, Suite 160, Columbus, Ohio 43235-6483.

**B. Hancock County Schools Health Benefit Fund**

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

**Note 17 - Insurance Pools** (continued)

**C. Northern Buckeye Education Council Workers' Compensation Group Rating Plan**

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The plan is offered by the Northern Buckeye Education Council (NBEC), and Sheakley UniServices, Inc. is the Third Party Administrator. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**Notes 18 - Contingencies**

**A. Grants**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2013.

**B. Litigation**

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

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Hancock County Educational Service Center  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Intergovernmental			\$ 758,334	
Interest			3,322	
Tuition and Fees			2,347,192	
Customer Services			2,660,569	
Miscellaneous			51,976	
Total Revenues			<u>5,821,393</u>	
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	\$ 87,583	\$ 87,583	76,565	\$ 11,018
Special	1,700,472	1,728,646	1,626,584	102,062
Support Services:				
Pupils	1,431,926	1,449,889	1,388,749	61,140
Instructional Staff	1,863,590	1,877,622	1,769,649	107,973
Board of Education	53,950	53,950	41,563	12,387
Administration	627,017	627,017	575,506	51,511
Fiscal	268,125	271,689	254,608	17,081
Operation and Maintenance of Plant	83,440	83,440	81,094	2,346
Pupil Transportation	91,130	94,130	91,814	2,316
Central	15,913	15,913	15,953	(40)
Non-Instructional Services	11,878	11,878	4,327	7,551
Extracurricular Activities	25	25	2	23
Total Expenditures	<u>6,235,049</u>	<u>6,301,782</u>	<u>5,926,414</u>	<u>375,368</u>
Excess of Expenditures Over Revenues	<u>(6,235,049)</u>	<u>(6,301,782)</u>	<u>(105,021)</u>	<u>6,196,761</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	0	0	100	100
Refund of Prior Year Receipts	0	(100)	(100)	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>(100)</u>	<u>0</u>	<u>100</u>
Changes in Fund Balance	(6,235,049)	(6,301,882)	(105,021)	6,196,861
Fund Balance at Beginning of Year	1,005,734	1,005,734	1,005,734	0
Prior Year Encumbrances Appropriated	\$ 17,589	\$ 17,589	17,589	0
Fund Balance at End of Year			<u>\$ 918,302</u>	<u>\$ 6,196,861</u>

See Accompanying Notes to the Supplemental Section

**Note 1 - Budgetary Process**

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

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

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

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

**Note 2 - Budgetary Basis of Accounting**

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

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

Hancock County Educational Service Center  
Notes to the Supplemental Section  
For the Fiscal Year Ended June 30, 2013

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**Note 2 - Budgetary Basis of Accounting** (continued)

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

	<u>General Fund</u>
GAAP Basis	\$52,514
<u>Increase (Decrease) Due to:</u>	
Revenue Accruals:	
Accrued FY 2012, Received in Cash FY 2013	24,745
Accrued FY 2013, Not Yet Received in Cash	(172,179)
Expenditure Accruals:	
Accrued FY 2012, Paid in Cash FY 2013	(658,538)
Accrued FY 2013, Not Yet Paid in Cash	667,611
Prepaid Items	(697)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	<u>(18,477)</u>
Budget Basis	<u><u>(\$105,021)</u></u>

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# Dave Yost • Auditor of State

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

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

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements the governmental activities the major fund, and the aggregate remaining fund information of Hancock County Educational Service Center, Hancock County, Ohio, (the Educational Service Center) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated February 19, 2015 wherein we noted the Educational Service Center adopted Governmental Accounting Standards Board Statements No. 63 and No. 65 in fiscal year 2013

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

As part of our financial statement audit, we considered the Educational Service Center's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Educational Service Center's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Educational Service Center's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Educational Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

February 19, 2015



# Dave Yost • Auditor of State

HANCOCK COUNTY EDUCATIONAL SERVICE CENTER

HANCOCK COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 10, 2015