



Dave Yost • Auditor of State

EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hancock County Educational Service Center, Hancock County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2011, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Hancock County Educational Service Center, Hancock County, Ohio, as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, the Educational Service Center implemented Government Accounting Standards Board Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2013, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Educational Service Center's basic financial statements taken as a whole. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund provides additional analysis and is not a required part of the basic financial statements. The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

April 3, 2013

Hancock County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

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, 2011. 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 2011 are as follows:

There was an increase in net assets for fiscal year 2011 of \$19,857, which resulted in the Educational Service Center recovering from the deficit net assets of the prior fiscal year.

Program specific revenues, in the form of charges for services and operating grants accounted for \$4,966,916, or 93 percent of total revenues.

Using the Basic Financial Statements

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

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

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

Reporting the Educational Service Center as a Whole

The statement of net assets and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2011. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

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

Hancock County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Reporting the Educational Service Center's Most Significant Funds

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

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

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

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net assets for fiscal year 2011 and fiscal year 2010.

Table 1 Net Assets			
	Governmental Activities		
	2011	2010	Change
<u>Assets:</u>			
Current and Other Assets	\$1,000,256	\$992,309	\$7,947
Capital Assets, Net	42,940	49,862	(6,922)
Total Assets	<u>1,043,196</u>	<u>1,042,171</u>	<u>1,025</u>
<u>Liabilities:</u>			
Current and Other Liabilities	\$643,433	\$673,330	\$29,897
Long-Term Liabilities	391,846	380,781	(11,065)
Total Liabilities	<u>1,035,279</u>	<u>1,054,111</u>	<u>18,832</u>
<u>Net Assets:</u>			
Invested in Capital Assets	42,940	49,862	(6,922)
Restricted	12,863	13,050	(187)
Unrestricted (Deficit)	(47,886)	(74,852)	26,966
Total Net Assets (Deficit)	<u>\$7,917</u>	<u>(\$11,940)</u>	<u>\$19,857</u>

With the exception of positive net assets at fiscal year end versus the deficit of the prior fiscal year, the above table reflects that there were no significant changes from fiscal year 2010.

Table 2 reflects the change in net assets for fiscal year 2011 and fiscal year 2010.

Hancock County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 2
Change in Net Assets

	Governmental Activities		
	2011	2010	Change
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$4,370,269	\$4,318,352	\$51,917
Operating Grants and Contributions	596,647	585,596	11,051
Total Program Revenues	4,966,916	4,903,948	62,968
General Revenues			
Grants and Entitlements	356,936	355,424	1,512
Interest	5,130	3,773	1,357
Miscellaneous	35,614	45,733	(10,119)
Total General Revenues	397,680	404,930	(7,250)
Total Revenues	5,364,596	5,308,878	55,718
<u>Expenses:</u>			
Instruction:			
Regular	111,298	113,119	1,821
Special	1,284,276	1,382,898	98,622
Support Services:			
Pupils	1,149,777	1,125,281	(24,496)
Instructional Staff	1,702,017	1,735,063	33,046
Board of Education	42,012	52,168	10,156
Administration	647,951	600,435	(47,516)
Fiscal	242,768	218,383	(24,385)
Operation and Maintenance of Plant	50,983	79,881	28,898
Pupil Transportation	93,373	95,097	1,724
Central	14,509	15,615	1,106
Non-Instructional Services	4,650	3,996	(654)
Extracurricular Activities	1,125		(1,125)
Total Expenses	5,344,739	5,421,936	77,197
Increase (Decrease) in Net Assets	19,857	(113,058)	132,915
Net Assets at Beginning of Year	(11,940)	101,118	(113,058)
Net Assets (Deficit) at End of Year	\$7,917	(\$11,940)	\$19,857

Program revenues were 93 percent of total revenues for fiscal year 2011 and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 81 percent of total revenues. The services being charged to the school districts involve various instruction and support services. The Educational Service Center primarily provides services to seven local school districts and one city school district in Northwest Ohio.

Total revenues increased 1 percent from the prior fiscal year and total expenses decreased 1.5 percent; neither of these changes was significant. Note, however, that revenues were greater than expenses for the fiscal year resulting in positive net assets at fiscal year end.

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.

Hancock County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction:				
Regular	\$111,298	\$113,119	(\$703,865)	(\$847,817)
Special	1,284,276	1,382,898	(2,373,752)	(2,092,216)
Support Services:				
Pupils	1,149,777	1,125,281	1,146,777	1,109,579
Instructional Staff	1,702,017	1,735,063	1,702,017	1,735,063
Board of Education	42,012	52,168	42,012	52,168
Administration	647,951	600,435	383,868	314,132
Fiscal	242,768	218,383	242,768	218,383
Operation and Maintenance of Plant	50,983	79,881	50,983	79,881
Pupil Transportation	93,373	95,097	(122,802)	(62,394)
Central	14,509	15,615	12,234	13,329
Non-Instructional Services	4,650	3,996	(3,542)	(2,120)
Extracurricular Activities	1,125		1,125	
Total Expenses	<u>\$5,344,739</u>	<u>\$5,421,936</u>	<u>\$377,823</u>	<u>\$517,988</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. While both revenues and expenditures remained very similar to the prior fiscal year for the General Fund, the excess of revenues over expenditures led to a 12 percent increase fund balance.

Capital Assets

At June 30, 2011, the Educational Service Center had \$42,940 invested in capital assets (net of accumulated depreciation). Additions and disposals in fiscal year 2011 were very minimal. For further information regarding the Educational Service Center's capital assets, refer to Note 8 to the basic financial statements.

Current Issues

Due to current economic conditions, our State foundation revenues are being reduced again by 10 percent for fiscal year 2012, with an expectation of further reductions around an additional 15 percent in fiscal year 2013. Grant funding is also expected to decrease. Service contract revenue may increase or decrease depending on the level of contracted service requests from the local school districts served by the Educational Service Center.

Hancock County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Educational Service Center's finances and to reflect the Educational Service Center's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Greg Spiess, Hancock County Educational Service Center, 7746 County Road 140 Findlay, Ohio 45840-1978.

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Hancock County Educational Service Center
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$960,560
Accounts Receivable	1,394
Intergovernmental Receivable	34,127
Prepaid Items	4,175
Depreciable Capital Assets, Net	42,940
Total Assets	<u>1,043,196</u>
 <u>Liabilities:</u>	
Accounts Payable	8,281
Accrued Wages and Benefits Payable	504,234
Matured Compensated Absences Payable	13,213
Intergovernmental Payable	117,705
Long-Term Liabilities:	
Due Within One Year	78,578
Due in More Than One Year	313,268
Total Liabilities	<u>1,035,279</u>
 <u>Net Assets:</u>	
Invested in Capital Assets	42,940
Restricted For:	
Other Purposes	12,863
Unrestricted (Deficit)	(47,886)
Total Net Assets	<u><u>\$7,917</u></u>

See Accompanying Notes to Basic Financial Statements

Hancock County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues		Net (Expense) Revenue and Change in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$111,298	\$726,488	\$88,675	\$703,865
Special	1,284,276	3,159,077	498,951	2,373,752
Support Services:				
Pupils	1,149,777		3,000	(1,146,777)
Instructional Staff	1,702,017			(1,702,017)
Board of Education	42,012			(42,012)
Administration	647,951	264,083		(383,868)
Fiscal	242,768			(242,768)
Operation and Maintenance of Plant	50,983			(50,983)
Pupil Transportation	93,373	216,175		122,802
Central	14,509		2,275	(12,234)
Non-Instructional Services	4,650	4,446	3,746	3,542
Extracurricular Activities	1,125			(1,125)
Total Governmental Activities	<u>\$5,344,739</u>	<u>\$4,370,269</u>	<u>\$596,647</u>	<u>(377,823)</u>

General Revenues:

Grants and Entitlements not Restricted to Specific Programs	356,936
Interest	5,130
Miscellaneous	35,614
Total General Revenues	<u>397,680</u>
Change in Net Assets	19,857
Net Assets (Deficit) at Beginning of Year	<u>(11,940)</u>
Net Assets at End of Year	<u>\$7,917</u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
 Balance Sheet
 Governmental Funds
 June 30, 2011

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$946,778	\$12,947	\$959,725
Accounts Receivable	1,394		1,394
Intergovernmental Receivable	30,922	3,205	34,127
Prepaid Items	3,883	292	4,175
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	835		835
Total Assets	\$983,812	\$16,444	\$1,000,256
 <u>Liabilities and Fund Balances:</u>			
<u>Liabilities</u>			
Accounts Payable	\$8,131	\$150	\$8,281
Accrued Wages and Benefits Payable	495,991	8,243	504,234
Matured Compensated Absences Payable	13,213		13,213
Intergovernmental Payable	116,708	997	117,705
Deferred Revenue		3,205	3,205
Total Liabilities	634,043	12,595	646,638
 <u>Fund Balances:</u>			
Nonspendable	4,718	292	5,010
Restricted		12,148	12,148
Assigned	17,962		17,962
Unassigned (Deficit)	327,089	(8,591)	318,498
Total Fund Balances	349,769	3,849	353,618
Total Liabilities and Fund Balances	\$983,812	\$16,444	\$1,000,256

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2011

Total Governmental Fund Balances	\$353,618
Amounts reported for governmental activities on the statement of net assets are different because of the following:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	42,940
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds: Intergovernmental Receivable	3,205
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(391,846)
Net Assets of Governmental Activities	<u><u>\$7,917</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, 2011

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Intergovernmental	\$853,993	\$95,135	\$949,128
Interest	5,130		5,130
Tuition and Fees	2,048,819		2,048,819
Customer Services	2,321,450		2,321,450
Gifts and Donations		1,000	1,000
Miscellaneous	35,614	250	35,864
Total Revenues	<u>5,265,006</u>	<u>96,385</u>	<u>5,361,391</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	75,956	33,952	109,908
Special	1,287,421		1,287,421
Support Services:			
Pupils	1,131,496		1,131,496
Instructional Staff	1,650,353	59,984	1,710,337
Board of Education	42,012		42,012
Administration	641,546	800	642,346
Fiscal	239,946		239,946
Operation and Maintenance of Plant	52,117		52,117
Pupil Transportation	90,503	382	90,885
Central	12,234	2,275	14,509
Non-Instructional Services	3,650	1,000	4,650
Extracurricular Activities	1,125		1,125
Total Expenditures	<u>5,228,359</u>	<u>98,393</u>	<u>5,326,752</u>
Changes in Fund Balances	36,647	(2,008)	34,639
Fund Balances at Beginning of Year -			
Restated (Note 3)	313,122	5,857	318,979
Fund Balances at End of Year	<u>\$349,769</u>	<u>\$3,849</u>	<u>\$353,618</u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2011

Changes in Fund Balances - Total Governmental Funds \$34,639

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	805	
Depreciation	<u>(7,637)</u>	(6,832)

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. (90)

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

Intergovernmental	3,205
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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. (11,065)

Change in Net Assets of Governmental Activities \$19,857

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2011

Assets:

Equity in Pooled Cash and Cash Equivalents	<u>\$116,030</u>
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Liabilities:

Undistributed Assets	\$115,285
Due to Students	<u>745</u>

Total Liabilities	<u>\$116,030</u>
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See Accompanying Notes to the Basic Financial Statements

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Note 1 - Reporting Entity

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

The Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has sixteen administrators, forty-eight classified employees, and forty-nine 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 Ohio Association of School Business Officials 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. The Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the Educational Service Center’s accounting policies.

A. Basis of Presentation

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center did not have any trust funds in fiscal year 2011. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for non-instructional faculty related activities, student-managed activities, and monies held for the Family and Children First Council.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Deferred Revenues

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

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

Expenses/Expenditures

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

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

E. Cash and Investments

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

During fiscal year 2011, investments consisted of STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2011.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2011 was \$5,130, which includes \$808 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

F. 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 or enabling legislation. Unclaimed monies that have a legal restriction on their expenditure are reported as restricted.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Capital Assets

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

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

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

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

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable 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)

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.

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Net Assets

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

L. 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 Education. The committed amounts cannot be used for any other purpose unless the Board of Education 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. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

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.

M. 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 and Restatement of Fund Balance

A. Change in Accounting Principles

For fiscal year 2011, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned, and/or unassigned.

B. Restatement of Fund Balance

The restatement due to the implementation of GASB Statement No. 54 had the following effect on fund balance of the major and nonmajor funds of the Educational Service Center as they were previously reported.

	General	Other Governmental	Total Governmental Funds
Fund Balance at June 30, 2010	\$310,230	\$8,749	\$318,979
Change in Fund Structure	2,892	(2,892)	
Adjusted Fund Balance at June 30, 2010	\$313,122	\$5,857	\$318,979

Note 4 - Accountability

At June 30, 2011, the Alternative School Program and Miscellaneous State Grants special revenue funds had deficit fund balances, in the amount of \$5,809 and \$2,782, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Deposits and Investments

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

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

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

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

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

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

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)

Note 5 - Deposits and Investments (Continued)

Investments

As of June 30, 2011, the Educational Service Center had the following investment:

	Fair Value	Maturity
STAR Ohio	\$636,832	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.

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.

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, 2011, consisted intergovernmental receivables. All receivables are considered collectible in full and within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Various School Districts	\$30,922
Other Governmental Funds	
Miscellaneous State Grants	3,205
Total Intergovernmental Receivables	\$34,127

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance at 6/30/10	Additions	Reductions	Balance at 6/30/11
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	\$61,711			\$61,711
Furniture, Fixtures, and Equipment	209,496	\$805	(\$24,521)	185,780
Vehicles	13,500			13,500
Total Depreciable Capital Assets	<u>284,707</u>	<u>805</u>	<u>(24,521)</u>	<u>260,991</u>
Less Accumulated Depreciation				
Buildings and Building Improvements	(42,558)	(995)		(43,553)
Furniture, Fixtures, and Equipment	(190,564)	(5,780)	24,431	(171,913)
Vehicles	(1,723)	(862)		(2,585)
Total Accumulated Depreciation	<u>(234,845)</u>	<u>(7,637)</u>	<u>24,431</u>	<u>(218,051)</u>
Governmental Activities Capital Assets, Net	<u>\$49,862</u>	<u>(\$6,832)</u>	<u>(\$90)</u>	<u>\$42,940</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,209
Special	1,084
Support Services:	
Pupils	1,221
Instructional Staff	1,639
Administration	357
Fiscal	2,127
Total Depreciation Expense	<u>\$7,637</u>

Note 9 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by the Schools of Ohio Risk Sharing Authority

General Liability	
Per Occurrence	\$3,000,000
Total per Year	5,000,000
Auto Liability	3,000,000
Commercial Property	500,000

Note 9 - Risk Management (Continued)

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 2011, 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 life insurance benefits. The Fund is responsible for the management and operations of the program. Upon withdrawal from the Fund, a participant is responsible for the payment of all Fund liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

Note 10 - Defined Benefit Pension Plans

A. State Teachers Retirement System

Plan Description - The 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.

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. For the fiscal year ended June 30, 2011, 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.

Note 10 - Defined Benefit Pension Plans (Continued)

The Educational Service Center's required contribution to STRS Ohio for the DBP and for the defined benefit portion of the CP were \$325,155 and \$20,470 for the fiscal year ended June 30, 2011, \$281,516 and \$19,630 for the fiscal year ended June 30, 2010, and \$372,943 and \$48 for the fiscal year ended June 30, 2009. For fiscal year 2011, 84 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 2010 and 2009.

The contribution to STRS Ohio for the DCP for fiscal year 2011 was \$49 made by the Educational Service Center and \$35 made by the plan members. In addition, member contributions of \$14,622 were made for fiscal year 2011 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 under employers/audit resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirement of plan members and employers are established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. 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, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 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, 2011, 2010, and 2009 was \$137,939, \$145,049, and \$132,328, respectively. For fiscal year 2011, 84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

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, 2011, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 11 - Postemployment Benefits

A. State Teachers Retirement System

Plan Description - The Educational Service Center 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.

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 2011, 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, 2011, 2010, and 2009 was \$26,590, \$23,165, and \$28,692, respectively. For fiscal year 2011, 84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

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, 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 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 2011, 1.43 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 2011, this amount was \$35,800. For fiscal year 2011, the Educational Service Center paid \$16,699 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, 2011, 2010, and 2009 was \$16,702, \$5,221, and \$60,559, respectively. For fiscal year 2011, 84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)

Note 11 - Postemployment Benefits (Continued)

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 2011, 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, 2011, 2010, and 2009 was \$8,877, \$8,626, and \$10,918, respectively. For fiscal year 2011, 84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

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 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 Fort Dearborn/Dearborn Life Insurance Company.

Note 13 - Long-Term Obligations

Changes in the Educational Service Center's long-term obligations during fiscal year 2011 were as follows:

	Balance at 6/30/10	Additions	Reductions	Balance at 6/30/11	Amounts Due Within One Year
Governmental Activities					
Compensated Absences	\$380,781	\$36,124	\$25,059	\$391,846	\$78,578

Compensated absences will be paid from the General Fund.

Hancock County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)

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.

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	\$3,883	\$292	\$4,175
Unclaimed Monies	835		835
Total Nonspendable	4,718	292	5,010
Restricted for:			
Special Instruction		12,148	12,148
Assigned for:			
Educational Activities	2,793		2,793
Non-instructional Services	6,024		6,024
Unpaid Obligations	9,145		9,145
Total Assigned	17,962		17,962
Unassigned (Deficit):	327,089	(8,591)	318,498
Total Fund Balance	\$349,769	\$3,849	\$353,618

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, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804. During fiscal year 2011, the Educational Service Center paid \$6,644 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Career and Technology Center

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

Note 15 - Jointly Governed Organizations (Continued)

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 board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishing agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Hancock County Schools Health Benefit Fund

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

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

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

Notes 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, 2011.

Notes 17 – Contingencies (Continued)

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$853,993	
Interest			5,143	
Tuition and Fees			2,074,240	
Customer Services			2,326,601	
Miscellaneous			34,259	
Total Revenues			<u>5,294,236</u>	
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	79,117	82,316	77,196	5,120
Special	1,332,411	1,338,560	1,292,270	46,290
Support Services:				
Pupils	1,136,748	1,141,048	1,118,539	22,509
Instructional Staff	1,757,114	1,785,001	1,682,115	102,886
Board of Education	46,750	49,136	45,515	3,621
Administration	686,040	686,300	659,758	26,542
Fiscal	257,200	257,200	241,014	16,186
Operation and Maintenance of Plant	11,692	52,480	51,393	1,087
Pupil Transportation	88,725	91,545	90,394	1,151
Central	17,050	17,050	11,664	5,386
Non-Instructional Services	10,537	10,537	3,650	6,887
Extracurricular Activities	1,149	1,150	1,125	25
Total Expenditures	<u>5,424,533</u>	<u>5,512,323</u>	<u>5,274,633</u>	<u>237,690</u>
Excess of Revenues Over (Under) Expenditures	(5,424,533)	(5,512,323)	19,603	5,531,926
<u>Other Financing Sources:</u>				
Refund of Prior Year Expenditures			711	711
Changes in Fund Balance	(5,424,533)	(5,512,323)	20,314	5,532,637
Fund Balance at Beginning of Year	903,555	903,555	903,555	
Prior Year Encumbrances Appropriated	11,383	11,383	11,383	
Fund Balance at End of Year			<u>\$935,252</u>	<u>\$5,532,637</u>

See Accompanying Notes to the Supplemental Section

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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, 2011
(Continued)

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

	General Fund
GAAP Basis	\$36,647
<u>Increase (Decrease) Due to:</u>	
Revenue Accruals:	
Accrued FY 2010, Received in Cash FY 2011	62,244
Accrued FY 2011, Not Yet Received in Cash	(32,316)
Expenditure Accruals:	
Accrued FY 2010, Paid in Cash FY 2011	(664,083)
Accrued FY 2011, Not Yet Paid in Cash	634,043
Cash Adjustments:	
Unrecorded Activity FY 2010	23
Unrecorded Activity FY 2011	(10)
Prepaid Items	(3,883)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(12,351)
Budget Basis	\$20,314



Dave Yost • Auditor of State

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

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

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hancock County Educational Service Center, Hancock County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2011, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated April 3, 2013, in which we noted the Educational Service Center implemented Government Accounting Standards Board Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the 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, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

www.ohioauditor.gov

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

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

Dave Yost
Auditor of State

April 3, 2013



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
APRIL 18, 2013