



**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2000**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



HANCOCK COUNTY EDUCATIONAL SERVICE CENTER

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STATE OF OHIO  
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## REPORT OF INDEPENDENT ACCOUNTANTS

Hancock County Educational Service Center  
7746 County Road 140  
Findlay, Ohio 45840-1817

To the Governing Board:

We have audited the accompanying general-purpose financial statements of the Hancock County Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center, as of June 30, 2000, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2000, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

**Jim Petro**  
Auditor of State

November 30, 2000

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**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
AS OF JUNE 30, 2000**

	Governmental Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
<b>ASSETS AND OTHER DEBITS:</b>						
<b>Assets:</b>						
Equity in Pooled Cash and Cash Equivalents	\$254,938	\$148,309	\$618,452			\$1,021,699
Receivables:						
Accrued Interest	958					958
Intergovernmental	53,375					53,375
Prepaid Items	14,232	892				15,124
Materials and Supplies Inventory	3,308					3,308
Fixed Assets				\$326,745		326,745
<b>Other Debits:</b>						
Amount to be Provided from General Governmental Resources					\$76,561	76,561
<b>Total Assets and Other Debits</b>	<b>\$326,811</b>	<b>\$149,201</b>	<b>\$618,452</b>	<b>\$326,745</b>	<b>\$76,561</b>	<b>\$1,497,770</b>
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS:</b>						
<b>Liabilities:</b>						
Accounts Payable	\$10,057	\$4,380				\$14,437
Accrued Wages and Benefits	152,335	26,189				178,524
Compensated Absences Payable	38,139	5,149			\$70,592	113,880
Intergovernmental Payable	207,465	30,100				237,565
Undistributed Assets			\$132,926			132,926
Due to Students			5,140			5,140
Loan Payable					5,969	5,969
Total Liabilities	407,996	65,818	138,066		76,561	688,441
<b>Fund Equity and Other Credits:</b>						
Investment in General Fixed Assets				\$326,745		326,745
Fund Balance:						
Reserved for Inventory	3,308					3,308
Reserved for External Pool Participants			480,386			480,386
Reserved for Encumbrances	8,252	15,559				23,811
Unreserved (Deficit)	(92,745)	67,824				(24,921)
Total Fund Equity and Other Credits	(81,185)	83,383	480,386	326,745		809,329
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$326,811</b>	<b>\$149,201</b>	<b>\$618,452</b>	<b>\$326,745</b>	<b>\$76,561</b>	<b>\$1,497,770</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*



**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Revenues:</b>			
Intergovernmental	\$1,222,356	\$577,302	\$1,799,658
Interest	31,066		31,066
Tuition and Fees	41,341	1,230	42,571
Customer Services	1,297,537		1,297,537
Gifts and Donations	34,755	6,512	41,267
Miscellaneous	54		54
	<hr/>	<hr/>	<hr/>
Total Revenues	2,627,109	585,044	3,212,153
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	208,275	18,174	226,449
Special	582,459	1,297	583,756
Support Services:			
Pupils	531,009	11,613	542,622
Instructional Staff	1,091,621	48,635	1,140,256
Board of Education	12,560	500	13,060
Administration	181,515		181,515
Fiscal	126,688		126,688
Business	5,508		5,508
Operation and Maintenance of Plant	13,498		13,498
Pupil Transportation	1,148		1,148
Central Services	3,499		3,499
Non-Instructional Services		79,863	79,863
Capital Outlay	9,135		9,135
Intergovernmental		356,451	356,451
Debt Service:			
Principal Retirement	3,166		3,166
Interest and Fiscal Charges	715		715
	<hr/>	<hr/>	<hr/>
Total Expenditures	2,770,796	516,533	3,287,329
Excess of Revenues Over/(Under) Expenditures	<hr/>	<hr/>	<hr/>
	(143,687)	68,511	(75,176)
<b>Other Financing Sources and Uses:</b>			
Proceeds from Loan	9,135		9,135
Operating Transfer In		500	500
Operating Transfer Out	(500)		(500)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	8,635	500	9,135
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<hr/>	<hr/>	<hr/>
	(135,052)	69,011	(66,041)
Fund Balances at Beginning of Year	52,314	14,372	66,686
Increase in Reserve for Inventory	1,553		1,553
	<hr/>	<hr/>	<hr/>
<b>Fund Balances at End of Year</b>	<b><u>(\$81,185)</u></b>	<b><u>\$83,383</u></b>	<b><u>\$2,198</u></b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	<b>General Fund</b>		
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Intergovernmental	\$1,166,869	\$1,231,182	\$64,313
Interest	20,000	30,108	10,108
Tuition and Fees	48,400	41,341	(7,059)
Customer Services	1,173,907	1,274,844	100,937
Gifts and Donations	27,940	34,755	6,815
Miscellaneous	400	54	(346)
	<u>2,437,516</u>	<u>2,612,284</u>	<u>174,768</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	273,019	210,373	62,646
Special	598,586	581,602	16,984
Support Services:			
Pupils	610,592	558,699	51,893
Instructional Staff	1,090,691	1,086,736	3,955
Board of Education	15,820	12,922	2,898
Administration	182,317	178,933	3,384
Fiscal	126,594	121,901	4,693
Business	7,700	5,508	2,192
Operation and Maintenance of Plant	20,531	11,992	8,539
Pupil Transportation	1,600	1,148	452
Central Services	7,200	1,934	5,266
Non-Instructional Services			
	<u>2,934,650</u>	<u>2,771,748</u>	<u>162,902</u>
Excess Revenues Over (Under) Expenditures	<u>(497,134)</u>	<u>(159,464)</u>	<u>337,670</u>
<b>Other Financing Sources (Uses):</b>			
Refund of Prior Year Expenditures	1,000		(1,000)
Advances In	5,000	5,000	
Advances Out			
Operating Transfers In			
Operating Transfers Out	(1,000)	(500)	500
	<u>5,000</u>	<u>4,500</u>	<u>(500)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(492,134)</u>	<u>(154,964)</u>	<u>337,170</u>
Fund Balances at Beginning of Year	390,070	390,070	
Prior Year Encumbrances Appropriated	9,234	9,234	
<b>Fund Balances at End of Year</b>	<b>(\$92,830)</b>	<b>\$244,340</b>	<b>\$337,170</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$514,937	\$577,302	\$62,365	\$1,681,806	\$1,808,484	\$126,678
			20,000	30,108	10,108
	1,230	1,230	48,400	42,571	(5,829)
			1,173,907	1,274,844	100,937
	6,512	6,512	27,940	41,267	13,327
			400	54	(346)
<u>514,937</u>	<u>585,044</u>	<u>70,107</u>	<u>2,952,453</u>	<u>3,197,328</u>	<u>244,875</u>
64,226	50,858	13,368	337,245	261,231	76,014
35,655	30,273	5,382	634,241	611,875	22,366
170,123	142,987	27,136	780,715	701,686	79,029
176,518	170,166	6,352	1,267,209	1,256,902	10,307
500	500		16,320	13,422	2,898
31,756	29,906	1,850	214,073	208,839	5,234
1,900	1,900		128,494	123,801	4,693
			7,700	5,508	2,192
			20,531	11,992	8,539
			1,600	1,148	452
			7,200	1,934	5,266
<u>97,091</u>	<u>76,114</u>	<u>20,977</u>	<u>97,091</u>	<u>76,114</u>	<u>20,977</u>
<u>577,769</u>	<u>502,704</u>	<u>75,065</u>	<u>3,512,419</u>	<u>3,274,452</u>	<u>237,967</u>
<u>(62,832)</u>	<u>82,340</u>	<u>145,172</u>	<u>(559,966)</u>	<u>(77,124)</u>	<u>482,842</u>
			1,000		(1,000)
			5,000	5,000	
(5,000)	(5,000)		(5,000)	(5,000)	
500	500		500	500	
			(1,000)	(500)	500
<u>(4,500)</u>	<u>(4,500)</u>		<u>500</u>		<u>(500)</u>
(67,332)	77,840	145,172	(559,466)	(77,124)	482,342
43,123	43,123		433,193	433,193	
9,216	9,216		18,450	18,450	
<b><u>(\$14,993)</u></b>	<b><u>\$130,179</u></b>	<b><u>\$145,172</u></b>	<b><u>(\$107,823)</u></b>	<b><u>\$374,519</u></b>	<b><u>\$482,342</u></b>

HANCOCK COUNTY EDUCATIONAL SERVICE CENTER

STATEMENT OF CHANGES IN NET ASSETS  
INVESTMENT TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	<u>Investment Trust Fund</u>
<b>Revenues:</b>	
Interest Income	<u>\$22,609</u>
Net Increase in Assets Resulting from Operations	<u>22,609</u>
Distributions to Participants	(22,609)
Capital Transactions	<u>127,913</u>
Total Increase in Net Assets	127,913
Net Assets at Beginning of Year	<u>352,473</u>
<b>Net Assets at End of Year</b>	<b><u><u>\$480,386</u></u></b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

## **HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

### **NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

#### **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 leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Hancock County Educational Service Center operates under a locally-elected Governing Board consisting of five members elected at-large for staggered four year terms. The Educational Service Center has two administrators, twenty-eight classified employees, and forty-seven certified teaching personnel that provide services to 11,443 students from the local and city school districts.

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

The Educational Service Center is associated with two jointly governed organizations and two insurance pools. These organizations are the Blanchard Valley Cooperative Vocational Career Center, Hancock County Local Professional Development Committee, NOACSC Workers' Compensation Group Rating Plan, and the Hancock County Schools Health Benefit Fund and Trust. Information about these organizations is presented in Notes 15 and 16 to the general purpose financial statements.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the 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.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

**A. Basis of Presentation - Fund Accounting**

The Educational Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Educational Service Center functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories of governmental and fiduciary.

**1. Governmental Fund Types**

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. The acquisition, use, and balances of the Educational Service Center's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the Educational Service Center's governmental fund types:

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

**2. Fiduciary Fund Types**

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. For the Educational Service Center, this consists of an investment trust fund and agency funds. The investment trust fund is accounted for on an accrual basis. Agency funds, which are custodial in nature (assets equal liabilities), do not involve measurement of results of operations.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

**3. Account Groups**

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the Educational Service Center.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center.

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types 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. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The investment trust fund is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The operating statement of this fund presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: grants, investment earnings, tuition, fees, and customer services.

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 the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the investment trust fund. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

**C. Budgetary Process**

The budgetary process is prescribed by provisions of Section 3317.11 of the Ohio Revised Code and entails preparation of budgetary documents within an established timetable.

The Educational Service Center legally adopts its budget for all funds, other than investment trust and agency funds, on or before the start of the new fiscal year. For fiscal year 2000, the investment trust fund was classified as an agency fund for budgetary purposes. For budgeted funds, the budget includes the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding fiscal year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenditures of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Educational Service Center. The State Department of Education reviews the budget and certifies to each local board of education, under the supervision of the Educational Service Center, the amount from part (B) that is to be apportioned to their school district.

**1. Appropriations**

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center.

The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Educational Service Center's Board.

The Educational Service Center may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, except investment trust and agency funds, consistent with statutory provisions.



**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

**2. Encumbrances**

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures.

**3. Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**D. Cash and Investments**

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2000, investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2000.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2000 was \$31,066, which included \$13,293 assigned from other Educational Service Center funds.

For purposes of the combined balance sheet, 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**E. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2000, 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 is reported in the year in which services are consumed.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

**F. Materials and Supplies Inventory**

Inventory in the governmental funds is stated at cost. Cost is determined on a first-in, first-out basis. Materials and supplies inventory consists of expendable supplies held for consumption. The costs of inventory items are recorded as expenditures when purchased. Reported materials and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**G. Fixed Assets and Depreciation**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market value as of the date received. The Educational Service Center maintains a capitalization threshold of two hundred dollars. The Educational Service Center does not have any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Assets in the general fixed assets account group are not depreciated.

**H. Compensated Absences**

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

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

The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

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

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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available expendable resources. Payments made more than sixty days after fiscal year end are considered not to have used current available expendable resources. The long-term loan is reported as a liability in the general long-term obligations account group until due.

**J. Fund Balance Reserves**

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

**K. Intergovernmental Revenues**

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, entitlements, and shared revenues are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

The Educational Service Center currently participates in several State and Federal programs, categorized as follows:

**Entitlements**

*General Fund*  
State Foundation Program

**Non-Reimbursable Grants**

*Special Revenue Funds*  
Early Intervention  
TOPS  
Gifted Model Project  
Education Management Information Systems  
Local Professional Development  
Ohio Reads  
Alternative Schools  
Parent Mentor  
Eisenhower  
Title VI-B  
Drug Free  
Early Childhood Preschool

Grants and entitlements amounted to approximately 56 percent of the Educational Service Center's revenues during the 2000 fiscal year.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**L. Flow-Through Grants**

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2000, these funds included Eisenhower, Title VI-B, Drug Free, and Early Childhood Preschool special revenue funds.

**M. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**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.

**O. Total Columns on General-Purpose Financial Statements**

Total columns on the general-purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**3. ACCOUNTABILITY**

At June 30, 2000, the General Fund had a deficit fund balance of \$81,185. The deficit was the result of expenditures made in excess of available revenues.

At June 30, 2000, the Early Intervention, Title VI-B, Drug Free, and Early Childhood Preschool special revenue funds had deficit fund balances of \$7,151, \$23,718, \$1,635, and \$173, respectively, which were created by the application of generally accepted accounting principles.

The General Fund, and the Early Intervention and Training Ohio Parents for Success special revenue funds had appropriations in excess of estimated resources plus available balances for the fiscal year ended June 30, 2000, in the amount of \$92,830, \$25,655, and \$5,322, respectively.

The following accounts had expenditures in excess of appropriations for the fiscal year ended June 30, 2000:

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

Fund Type/Fund/ Function/Object	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds			
Gifted Model Project			
Instructional Staff			
Purchased Services	\$2,256	\$3,056	\$800
Ohio Reads			
Pupils			
Purchased Services	570	635	65
Materials and Supplies	10,420	11,625	1,205
Parent Mentor			
Instructional Staff			
Materials and Supplies	1,187	2,053	866
Title VI-B			
Pupils			
Salaries	121,273	121,759	486
Instructional Staff			
Salaries	64,098	68,309	4,211

**4. BUDGETARY BASIS OF ACCOUNTING**

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types 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 GAAP basis are that:

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 for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

Excess of Revenues and Other Financing Sources  
Over (Under) Expenditures and Other Financing Uses  
All Governmental Fund Types

	<u>General</u>	<u>Special Revenue</u>
GAAP Basis	(\$135,052)	\$69,011
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals:		
Accrued FY 1999, Received in Cash FY 2000	39,508	
Accrued FY 2000, Not Yet Received in Cash	(54,333)	
Expenditure Accruals:		
Accrued FY 1999, Paid in Cash FY 2000	(398,532)	(33,161)
Accrued FY 2000, Not Yet Paid in Cash	407,996	65,818
Prepaid Items	(8,953)	(698)
Advances In	5,000	
Advances Out		(5,000)
Encumbrances Outstanding at Year End (Budget Basis)	<u>(10,598)</u>	<u>(18,130)</u>
Budget Basis	<u><u>(\$154,964)</u></u>	<u><u>\$77,840</u></u>

**5. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

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

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

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

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

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$104,810 and the bank balance was \$265,041. Of the bank balance, \$100,000 was covered by federal depository insurance and \$165,041 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

The Educational Service Center's investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Educational Service Center or the Educational Service Center's agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2000, the fair value of funds on deposit with STAR Ohio was \$916,889.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$1,021,699	
Investments:		
STAR Ohio	(916,889)	\$916,889
GASB Statement No. 3	<u>\$104,810</u>	<u>\$916,889</u>

**6. INVESTMENT POOL**

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

Statement of Net Assets June 30, 2000	
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,021,699
Accrued Interest Receivable	958
	<u>\$1,022,657</u>
<u>Net Assets Held in Trust for Pool Participants:</u>	
Internal Portion	\$542,271
External Portion	480,386
Total Net Assets Held in Trust for Pool Participants	<u>\$1,022,657</u>



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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

Statement of Changes in Net Assets  
For the Fiscal Year Ended June 30, 2000

<u>Revenues:</u>	
Interest	\$53,675
<u>Expenses:</u>	
Operating Expenses	
Net Increase in Assets Resulting from Operations	<u>53,675</u>
Distributions to Participants	(52,717)
Capital Transactions	<u>211,578</u>
Total Increase in Net Assets	<u>212,536</u>
Net Assets Beginning of Year	<u>810,121</u>
Net Assets End of Year	<u><u>\$1,022,657</u></u>

**7. STATE FUNDING**

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

Part (B) of the budget is provided by the local school districts to which the Educational Service Center provides services and by the State Department of Education. Each local school district's portion is determined by multiplying the average daily membership of the local school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that local school district's resources provided under the State's School Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the local school districts served by the Educational Service Center by \$36. This amount is provided from State resources.

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

**8. RECEIVABLES**

Receivables at June 30, 2000, consisted of accrued interest and intergovernmental receivables. All receivables are considered collectible in full 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:

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

	<u>Amounts</u>
General Fund	
Preschool Education	\$2,057
Career Education	17,268
Special Education	25,051
Miscellaneous	8,999
Total Intergovernmental Receivables	<u>\$53,375</u>

**9. FIXED ASSETS**

A summary of the changes in general fixed assets during fiscal year 2000 follows:

<u>Asset Category</u>	<u>Balance at 6/30/99</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/00</u>
Buildings	\$36,837			\$36,837
Furniture, Fixtures, and Equipment	234,833	\$19,580	\$13,035	241,378
Vehicles	46,516	32,635	30,621	48,530
Total	<u>\$318,186</u>	<u>\$52,215</u>	<u>\$43,656</u>	<u>\$326,745</u>

**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 2000, the Educational Service Center contracted for the following insurance coverages:

Coverages provided by Frankenmuth Mutual Company:

Commercial Property Contents - replacement cost (\$250 deductible)	\$161,047
Inland Marine Coverage (\$100 deductible)	126,818
Comprehensive General Liability	1,000,000
Business Auto Coverage	1,000,000

Coverages by Nationwide Insurance Company:

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

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

For fiscal year 2000, the Educational Service Center participated in the NOACSC Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

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

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

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

**11. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations for fiscal year 2000. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2000, 1999, and 1998, were \$99,333, \$94,408, and \$149,730, respectively; 4 percent has been contributed for fiscal year 2000 and 100 percent for fiscal years 1999 and 1998. The unpaid contribution for fiscal year 2000, in the amount of \$95,654, is recorded as a liability within the respective funds.

**B. School Employees Retirement System**

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

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.5 percent was the portion used to fund pension obligations for fiscal year 2000. For fiscal year 1999, 7.7 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2000, 1999, and 1998, were \$33,321, \$35,569, and \$34,615, respectively; 93 percent has been contributed for fiscal year 2000 and 100 percent for fiscal years 1999 and 1998. The unpaid contribution for fiscal year 2000, in the amount of \$2,198, is recorded as a liability within the respective funds.

**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, 2000, three members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**12. POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2000, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$132,443 for fiscal year 2000.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,783 million at June 30, 1999 (the latest information available). For the fiscal year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000, and STRS had 95,796 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 8.5 percent of covered payroll, an increase from 6.3 percent for fiscal year 1999. In addition, SERS levies a surcharge to

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fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2000, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$51,495 for fiscal year 2000.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 1999, were \$126,380,984, and the target level was \$189.6 million. At June 30, 1999, SERS had net assets available for payment of health care benefits of \$188 million. SERS has approximately 51,000 participants currently receiving health care benefits.

**13. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

**B. Health Care Benefits**

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

**14. LONG-TERM OBLIGATIONS**

During fiscal year 2000, the change in the Educational Service Center's compensated absences liability reported in the general long-term obligations account group was an increase of \$6,310, from \$64,282 to \$70,592. Compensated absences will be paid from the fund from which the employees' salaries are paid.

During fiscal year 2000, the Educational Service Center entered into a loan agreement, in the amount of \$9,135, for the acquisition of two vehicles. During the year, the Educational Service Center made principal payments of \$3,166 leaving an outstanding balance of \$5,969 at June 30, 2000. The loan will be paid from the General Fund and will be completely retired in fiscal year 2002.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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**15. JOINTLY GOVERNED ORGANIZATIONS**

**A. Blanchard Valley Cooperative Vocational Career Center**

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

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

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

**16. INSURANCE POOLS**

**A. NOACSC Workers' Compensation Group Rating Plan**

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

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

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

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

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

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

**17. SCHOOL FOUNDATION PROGRAM**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's Legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "School Foundation Program", which provides significant monetary support to the Educational Service Center. During the fiscal year ended June 30, 2000, the Educational Service Center received \$1,190,949 of school foundation support for its General Fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Supreme Court rendered an opinion on this issue. The Supreme Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled". The Supreme Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision; however, it found seven "...major areas warrant further attention, study, and development by the Ohio General Assembly...", including the State's reliance on local property tax funding; the State's basic aid formula; the school foundation program, as discussed above; the mechanism for, and adequacy of, funding for school facilities; and the existence of the State's School Solvency Assistance Fund, which the Supreme Court found took the place of the unconstitutional emergency school loan assistance program.

The Supreme Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

**18. CONTINGENT LIABILITIES**

**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, 2000.

**B. Litigation**

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

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**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**  
**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2000**

<b>FEDERAL GRANTOR</b> <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity's Number	Receipts	Disbursements
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education</i>				
<b><u>Special Education Cluster</u></b>				
Special Education - Grants to States	84.027	6BSF-99P 6BSF-00P	\$268,337	\$19,226 246,194
Total Special Education - Grants to States			268,337	265,420
Special Education - Preschool Grants	84.173	PGS1-99P PGS1-00P	16,200	3,616 14,061
Total Special Education - Preschool			16,200	17,677
Total Special Education Cluster			284,537	283,097
Safe and Drug Free Schools and Communities State	84.186	DRS1-99 DRS1-00	23,051	2,918 20,882
Total Safe and Drug Free Schools and Communities Act			23,051	23,800
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2S5-99	50,000	107,473
Eisenhower Professional Development State Grants	84.281	MSS1-98 MSS1-98C MSS1-99 MSS1-00	17,676	571 483 15,842 8,276
Total Eisenhower Professional Development			17,676	25,172
Total Department of Education			375,264	439,542
<i>Passed Through Ohio Department of Health</i>				
Special Education - Grants for Infants and Families	84.181	35-5-01-F-AN-392 32-5-01-F-AN-392	25,655	20,696 55,082
Total Special Education - Grants for Infants and Families			82,726	75,778
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medical Assistance Program	93.778	Not Available	32,386	32,386
<b>Total Federal Financial Assistance</b>			<b>\$490,376</b>	<b>\$547,706</b>

*The accompanying notes are an integral part of this schedule.*

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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

Hancock County Educational Service Center  
7746 County Road 140  
Findlay, Ohio 45840-1817

To the Governing Board:

We have audited the financial statements of the Hancock County Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 2000, and have issued our report thereon dated November 30, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Educational Service Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2000-10232-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated November 30, 2000.

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

**Jim Petro**  
Auditor of State

November 30, 2000



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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

Hancock County Educational Service Center  
7746 County Road 140  
Findlay, Ohio 45840-1817

To the Governing Board:

**Compliance**

We have audited the compliance of the Hancock County Educational Service Center (the Educational Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The Educational Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

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

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the Educational Service Center in a separate letter dated November 30, 2000.

**Internal Control Over Compliance**

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

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Educational Service Center's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as item 2000-10232-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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

**Jim Petro**  
Auditor of State

November 30, 2000

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2000**

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

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

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

**Finding Number 2000-10232-001**

**Reportable Condition**

Confirmation of Receipt of Goods

Invoices paid did not always contain documentation verifying the receipt of goods or services. This weakness limits the Educational Service Center’s control over disbursements, could allow payments to be made for goods or services not received, and increases the possibility of errors or irregularities occurring and not being detected in the normal course of operations. It is recommended that no payments be made without verifying the receipt of goods or services.

**3. FINDINGS FOR FEDERAL AWARDS**

**Finding Number 2000-10232-002**

<b>CFDA Title and Number</b>	Special Education Cluster, CFDA #84.027 and 84.173
<b>Federal Award Number / Year</b>	047407-6B-SF-99P/ FYE 6-30-99 047407-6B-SF-2000P/ FYE 6-30-00 047407-PG-SI-99P/ FYE 6-30-99 047407-PG-SI-2000P/ FYE 6-30-00
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Reportable Condition**

Confirmation of Receipt of Goods

The reportable condition described in finding number 2000-10232-001 was also applicable to federal transactions.



**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2000**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
1999-10232-001	Reportable Condition Disbursement and Payroll Controls GAGAS	No	Significant improvement made to implement controls for most of the items listed in the prior audit with the exception of receipt of goods. This will be corrected in FY2001.
1999-10232-002	Reportable Condition Disbursement and Payroll Controls Federal Awards	No	Significant improvement made to implement controls for most of the items listed in the prior audit with the exception of receipt of goods. This will be corrected in FY2001. .





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**HANCOCK EDUCATIONAL SERVICE CENTER**

**HANCOCK COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 19, 2000**