



**Local Government Innovation Grant –
for Related Services Staff Scheduling
and Medicaid Reimbursement Project**

Submitted By:

Educational Service Center of Central Ohio

Franklin County Board of Developmental Disabilities

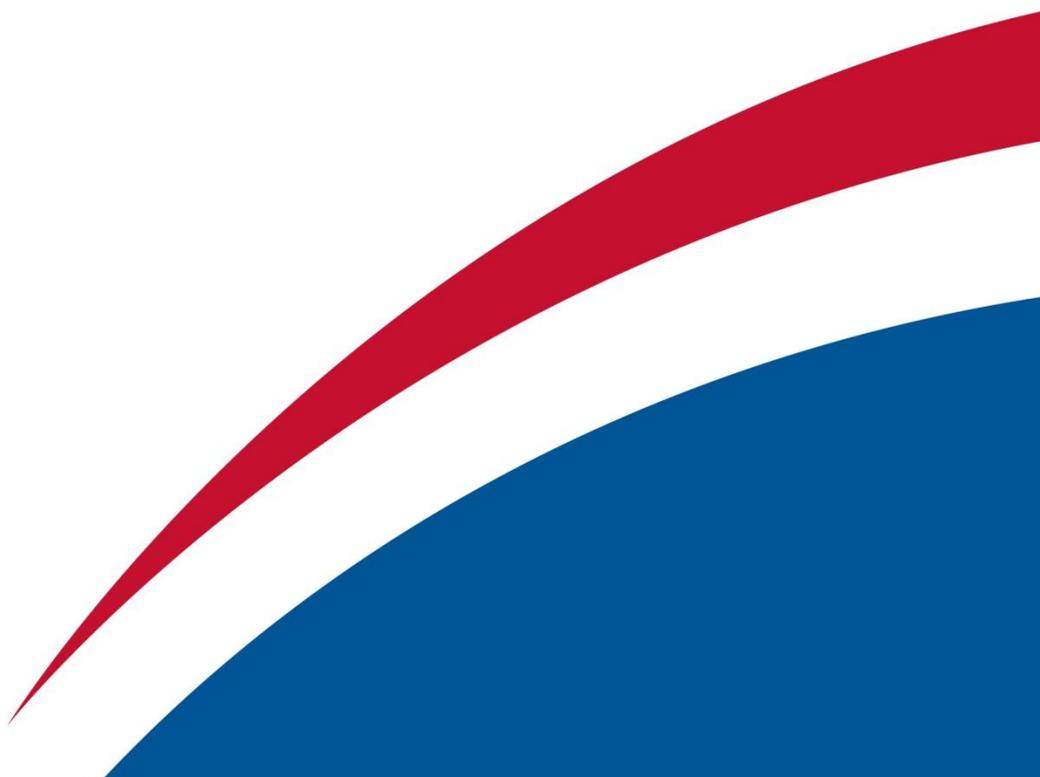
North Central Ohio Educational Service Center

Submitted March 1, 2012



Section One:

Contact Information



Section One: Contact Information

Name of Main Applicant:

Educational Service Center of Central Ohio

Address of Main Applicant:

2080 Citygate Dr. Columbus, OH 43219

Phone Number:

(614) 542-4175

Fax Number:

(614) 445-3767

Email Address:

chris.downey@escoco.org

Primary Contact for Applicant:

Chris Downey; Grants Manager

County:

Located in Franklin County; also serves school districts in Delaware and Union counties.

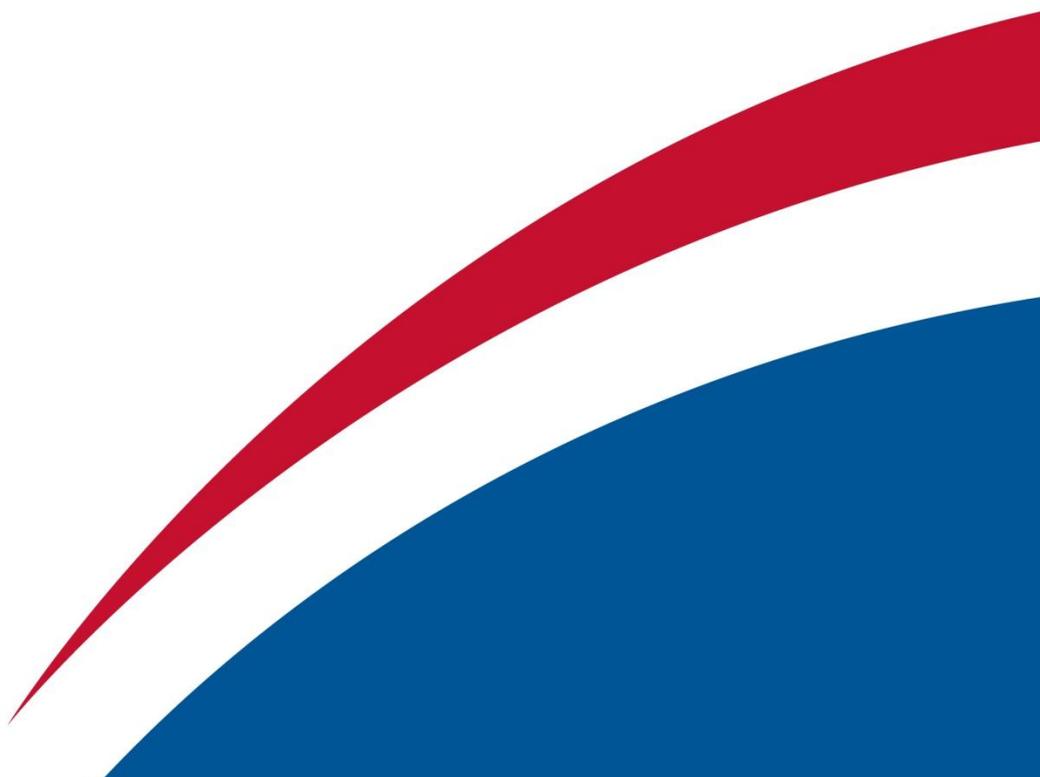
Population Data:

1,389,928 residents in Delaware, Franklin, and Union counties. Detailed census data and identification of municipalities, counties, and townships served can be found in Section Five: Support Documentation.



Section Two:

Collaborative Partners



Section Two: Collaborative Partners

Name of Collaborative Partner:

Franklin County Board of Developmental Disabilities

Address of Collaborative Partner:

2879 Johnstown Rd. Columbus, OH 43219

Phone Number:

(614) 475-6440

Fax Number:

(614) 342-5001

Email Address: dot.yeager@fcbdd.org

Primary Contact for Applicant:

Dot Yeager; Chief Financial Officer

County: Franklin

Population Data:

1,163,414 residents in Franklin County. Detailed census data and identification of municipalities, counties, and townships served can be found in Section Five: Support Documentation.

Name of Collaborative Partner:

North Central Ohio Educational Service Center

Address of Collaborative Partner:

928 West Market Street, Suite A, Tiffin, Ohio 44883

Phone Number:

(419) 447-2927

Fax Number:

(419) 447-2825

Email Address:

lahoski@ncoesc.org

Primary Contact for Applicant:

Dr. James Lahoski; Superintendent

County:

Located in Seneca County; also serves school districts in Marion, Sandusky, and Wyandot counties.

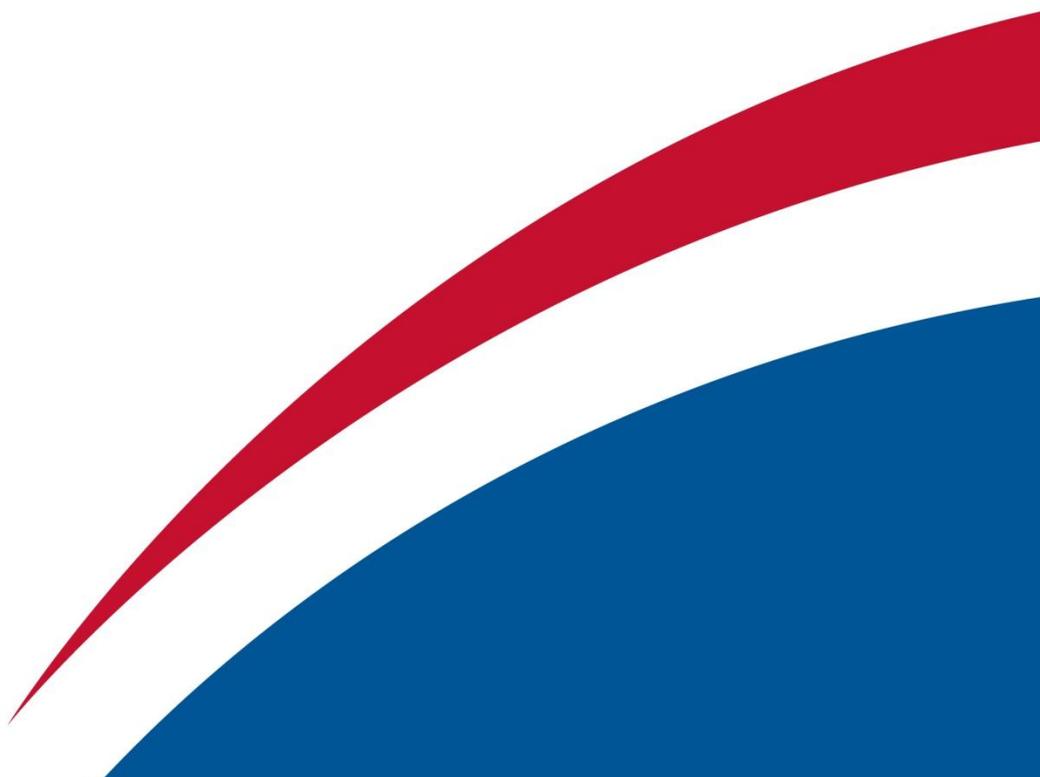
Population Data:

206,805 residents in Marion, Sandusky, Seneca, and Wyandot counties. Detailed census data and identification of municipalities, counties, and townships served can be found in Section Five: Support Documentation.



Section Three:

Project Information



Section Three: Project Information

Project Name:

Related Services Staff Scheduling and Medicaid Reimbursement Project

Project Description:

The Educational Service Center of Central Ohio, in partnership with the North Central Ohio Educational Service Center and the Franklin County Board of Developmental Disabilities are seeking loan funding from the Local Government Innovation Council for the Related Services Staff Scheduling and Medicaid Reimbursement Project. Through the use of a logistical scheduling software system provided by the District Management Council, the partnering agencies hope to increase the efficiency with which related services staff are scheduled, and thus provide services to students.

Related services, such as physical therapy, occupational therapy, speech-language pathology and audiology, nursing, and mental health, are medical-related services provided to those with specific physical and mental needs. For school-aged children with disabilities, the federal Individuals with Disabilities Act requires that an Individualized Education Plan (IEP) be written for each student. Funding for services to these students is managed through the Ohio Medicaid School Program (MSP), a joint collaboration between the Ohio Departments of Education and Job and Family Services. MSP provides federal Medicaid funding to school districts and community schools for related services and other costs associated with the education of children with disabilities. Required state matching funds are provided by the local governmental entity, not the State of Ohio.

Related services clinicians employed by Educational Service Centers and Boards of Developmental Disabilities are often utilized by school districts and community schools to provide services to students with IEPs, the cost of which can be reimbursed through Medicaid. The rate at which districts and community schools receive Medicaid reimbursement for these services depends on the percentage of students who are Medicaid eligible, and the amount of time practitioners spend providing services that can be billed back to Medicaid. Internal analyses conducted by the project partners estimate that the time spent by practitioners on billable activities is 37 percent of the average work day. Fortunately, creative solutions exist to increase this rate.

One such possibility is a logistical scheduling and deployment software system offered by the District Management Council called dmStaffing. The District Management Council is a nationwide membership network of school districts and education leaders that provides expertise on a variety of topics. Through the implementation of dmStaffing, the project partners will be able to more efficiently deploy their related services clinicians. This will allow for the provision of services to a greater number of students by the same number of practitioners, but will allow Ohio schools to recoup more funds through Medicaid.

Based upon analyses provided by the District Management Council and the project partners, a goal of increasing Medicaid-billable services by at least ten percent has been set. As will be described in further detail in Section Four: Financial Documentation below, the projected savings resulting from the ten percent increase in billable services are expected to be greater than \$1.9 million.

Any funding awarded by the Local Government Innovation Council will be allocated solely towards the cost of implementing the dmStaffing software system, and will not be used for other operational costs, such as salaries and benefits of practitioners.

About the Project Partners:

The Educational Service Center of Central Ohio accelerates the missions of school districts in Delaware, Franklin, and Union counties, serving more than 200,000 school children in 22 school districts. Through direct instruction and quality professional development, the agency partners with districts and community schools to improve education for all students, particularly those with special needs. The ESC also offers robust educational consultancy services through a growing list of programs including instructional coaching, administrative counseling, professional employment services and business services. The ESC currently employs 44.15 full-time equivalent related services personnel. ESC related services therapists and specialists served 5,400 students last school year.

The Franklin County Board of Developmental Disabilities operates a county agency providing direct or contracted services on a daily basis. The Board provides educational, employment, and support services to children and adults of all ages, who have developmental disabilities. Services are provided in early childhood programs, schools, ARC Industries Sheltered Workshops, and in a variety of other settings where support is needed. Similar to public schools, most services are provided at no cost and are supported by local, state and federal funds. Services are provided to residents of Franklin County who meet the eligibility requirements. The Board currently employs 44.5 full-time equivalent related services personnel.

The North Central Ohio Educational Service Center is committed to offering quality programs and services to help school districts meet their unique needs. NCOESC currently serves more than 33,000 students from Marion, Sandusky, Seneca, Wyandot and Union counties and has specialists who provide contracted services in over 40 school districts in Ohio. The ESC currently employs 49.67 full-time equivalent related services personnel.

Project Type:

The project will be a demonstration project.

Target Approach to Innovation:

The project will utilize a **coproduction** approach to innovation.

Return on Investment:

Based on historical and projected cost calculations, the project's return on investment is anticipated to be approximately 70 percent. As illustrated in Tables 3.1 A and 3.1 B below, project costs are expected to gradually increase, from \$9.7 million in fiscal year 2010 to \$11.3 million in project year three. These operational costs are relatively stagnant, and would remain regardless of the use of the logistical software system. The cost of dmStaffing is estimated at just more than \$1.3 million over the course of the first three years. If the software produces the expected increase in Medicaid reimbursement, the projected savings would equate to more than \$1.9 million over the same time period. By dividing the cost of the software system (\$1.3 million) by the anticipated savings (\$1.9 million), a return on investment of 69.52 percent is realized.

Calculation of Return on Investment:

Return on Investment (ROI) = Cost of dmStaffing Project Year 1 -3 / Projected Savings Project Year 1 - 3

ROI = (\$256,200 + \$909,000 + \$166,200) / (\$794,155 + \$172,867 + \$948,123)

ROI = \$1,331,400 / \$1,915,145

ROI = 69.52 percent

Probability of Success:

The project partners are confident in the likely success of the project. A conservative goal of increasing Medicaid reimbursement by ten percentage points has been set, which, if realized, will net a savings of more than \$1.9 million. This goal is based on data and analyses provided to the partners by the District Management Council as part of the project's feasibility study. According to the Council's analysis of a cross-section of ESC of Central Ohio clinicians, the increase in service provision could increase by as much as 53 percent with the current staffing levels. The District Management Council also has a history of success in implementing dmStaffing. In a sample of seven school districts, with enrollments ranging from 5,000 to 190,000 students, projected annual savings ranged from \$98,000 to \$1.7 million.

Furthermore, each of the project partners have demonstrated success in implementing large-scale, shared services projects. In fact, by their very nature, Educational Service Centers and Boards of Developmental Disabilities are shared services agencies, providing services to various benefactors at lower costs through economies of scale. In addition to related services, shared services that are provided by these agencies include the management of alternative education programs and preschool classrooms; employment and fiscal services; and contracted professional development for educators.

The partners also have a history of success with the management and utilization of logistical software. The ESC of Central Ohio, in partnership with Frontline Technologies, administers a consortium for the recruitment, placement, and deployment of substitute teachers.

Table 3.1A: Return on Investment – Previous Operational Costs

Entity	Fiscal Year 2010		Fiscal Year 2011		Current Year	
	Cost	Medicaid Reimbursement	Cost	Medicaid Reimbursement	Cost	Medicaid Reimbursement
ESC of Central Ohio	\$2,895,029.08	\$1,071,160.76	\$3,001,897	\$1,110,702	\$3,069,424	\$1,135,690
North Central ESC	\$3,091,700.92	\$1,143,929.34	\$3,140,058	\$1,161,821	\$3,215,625	\$1,189,781
Franklin County Board of DD	\$3,748,397.25	\$1,386,906.98	\$3,843,722	\$1,422,177	\$3,912,583	\$1,447,656
dmStaffing	N/A	N/A	N/A	N/A	N/A	N/A
Total	\$9,735,127.25	\$3,601,997.08	\$9,985,676	\$3,694,700	\$10,197,632	\$3,773,127

Table 3.1B: Return on Investment – Estimated Future Costs

Project Year One				Project Year Two			
Projected Cost	Medicaid Reimbursement w/ dmStaffing	Medicaid Reimbursement w/o dmStaffing	Projected Savings	Projected Cost	Medicaid Reimbursement w/ dmStaffing	Medicaid Reimbursement w/o dmStaffing	Projected Savings
\$3,161,507	\$1,485,908	\$1,169,758	\$316,150	\$3,256,352	\$1,530,485	\$1,204,850	\$325,635
\$3,312,094	\$1,556,684	\$1,225,475	\$331,209	\$3,411,457	\$1,603,385	\$1,262,239	\$341,146
\$4,029,960	\$1,894,081	\$1,491,085	\$402,996	\$4,150,859	\$1,950,904	\$1,535,818	\$415,086
\$256,200	\$0			\$909,000	\$0		
\$10,759,761	\$4,936,674	\$3,886,318	\$794,155	\$11,727,668	\$5,084,774	\$4,002,907	\$172,867

Project Year Three			
Projected Cost	Medicaid Reimbursement w/ dmStaffing	Medicaid Reimbursement w/o dmStaffing	Projected Savings
\$3,354,042	\$1,576,400	\$1,240,996	\$335,404
\$3,513,800	\$1,651,486	\$1,300,106	\$351,380
\$4,275,385	\$2,009,431	\$1,581,892	\$427,539
\$166,200	\$0		
\$11,309,428	\$5,237,317	\$4,122,994	\$948,123

Frontline Technologies' Automated Educational Substitute Operating (AESOP) system provides a completely electronic means for school district staff to schedule absences and substitutes to accept postings. The system also provides districts with a wider pool of trained and state-approved substitute teachers than would be available to districts individually. Currently, thirteen central Ohio districts are utilizing the ESC's substitute teacher deployment system, while several others have expressed interest for the 2012-13 school year.

Replication and Scalability:

With Boards of Developmental Disabilities in each of Ohio's 88 counties, and 53 Educational Service Centers across the state, nearly all of which provide Medicaid reimbursable related services to various constituencies, the project lends itself well to both replication and scalability. Should the project prove successful, the partners will share information regarding the implementation of dmStaffing with their statewide association organizations, the Ohio Association of Educational Service Centers and the Ohio Association of County Boards of Developmental Disabilities. Both associations, along with other stakeholder groups that will be consulted, provide excellent opportunities, including through presentations at annual conferences, to inform peers across the state of successful projects and best practices.

However, the potential impact of increasing Medicaid reimbursement for related services is not limited to Educational Service Centers and Boards of Developmental Disabilities. School districts; community schools; Boards of Alcohol, Drug, and Mental Health; Job and Family Services departments; local health districts; county hospitals and nursing homes; and juvenile detention centers are providers of and/or utilize Medicaid-approved related services. These agencies provide assistance to the 2.1 million Ohioans who are enrolled in Medicaid, including 1.18 million children.

According to data obtained from the Ohio Department of Job and Family Services, there are 89,000 Medicaid service providers in Ohio. Using the same conservative estimate of increasing reimbursable costs by ten percentage points as the project has, Medicaid reimbursement statewide could increase by \$748 million annually. Once again, matching funds are provided at the local level of government, and would not increase costs for the State of Ohio.

Table 3.2: Scalability of Related Services Scheduling and Medicaid Reimbursement

Entity	Pilot	Statewide
Related Service Providers FTE	138.32	89,000
Current Medicaid Reimbursement	\$3.77 million	\$2.4 billion
Increased Reimbursement from 10% Gain	\$1,163,547.00	\$748,667,213.28

Identification as Part of a Larger Consolidation Effort:

The project partners continue to explore ways to reduce the cost of services and maximize the availability of external funding. Included in this effort has been an examination of current administrative rules that prevent the costs of related services being reimbursed by Medicaid for some students. As previously noted, students who attend a traditional school district or public community school, and 1) are Medicaid-eligible and 2) have an Individualized Education Plan (IEP) may have their related services reimbursed through the Medicaid School Plan. However, due to Ohio administrative rules, students attending Joint Vocational Schools or schools operated by Educational Service Centers and Boards of Developmental Disabilities are not eligible for reimbursable costs, regardless of their Medicaid eligibility or IEP requirements.

Of the 1.26 million students attending public schools in Ohio, an estimated 87,700, or 6.95 percent, are eligible for reimbursable services under MSP. According to the Ohio Department of Education, districts received an estimated \$44.97 million in Medicaid reimbursement for related services via MSP in federal fiscal year 2011. This equates to \$512.59 per eligible student.

Table 3.3: MSP Eligible Students and Current Reimbursement

Ohio Public School Students	Medicaid Eligible Students w/ IEP	FY 2011 MSP Reimbursement	Per Student Reimbursement
1,261,815	87,731	\$44,970,212.16	\$512.59

However, the State is leaving millions of dollars on the table by not allowing for the reimbursement of services for students attending Joint Vocational Schools, ESCs, and Boards of Developmental Disabilities. Approximately 153,000 students attend such schools each year. Assuming the percentage of these students who are Medicaid eligible is roughly the same as the statewide student population, more than 10,500 students could receive reimbursable services, netting the State nearly \$5.5 million annually.

Table 3.4: Unrealized Medicaid Reimbursement for Students Served by ESCs and County Boards of Developmental Disabilities

Students Attending Non-MSP Eligible Schools	Estimated Number of Eligible Students	Estimated Non-Realized Reimbursement
153,300	10,654	\$5,461,334.99

Additionally, more than 500 school districts and community schools in Ohio have not joined the Medicaid School Program, and are thus not receiving reimbursement for the related services provided to their students. The enrollment of these districts and schools exceeds 550,000 students. With a conservative estimate of five percent of this student population being Medicaid eligible, more than 27,000 students could have their services reimbursed by Medicaid. Extrapolating this unrealized reimbursement from the data provided above, these schools and districts are losing out on \$14.1 million annually.

Table 3.5: Unrealized Medicaid Reimbursement for Non-Participating Districts and Schools

Students Attending Non-Participating Schools	Estimated Number of Eligible Students	Estimated Non-Realized Reimbursement
552,641	27,632	\$14,163,912.51

Response to Economic Demand:

By optimizing currently untapped federal resources, the project aims to meet a demand of school districts and local governmental agencies of maximizing resources and efficiency. Local governments, including school districts, have had to make do with less as a result of the economic downturn. Declines in property values in most districts have meant less funding from levies previously approved by voters and the increased likelihood of new levies being rejected. At the same time, the costs of services continue to increase with the costs associated with services for special education students (those with Individualized Education Plans) among the most expensive. Nearly 15 percent of Ohio students have IEP’s, but that percentage increases in urban and rural districts, many of whom are served by the project partners. By increasing efficiency in the provision of services to these students, local school districts will benefit by maintaining costs and increasing the federal Medicaid match.

Intent to Implement Recommendations of a Performance Audit:

The project does not stem from recommendations of a performance audit. Internal analyses of service provision and Medicaid reimbursement were the impetus for the project.

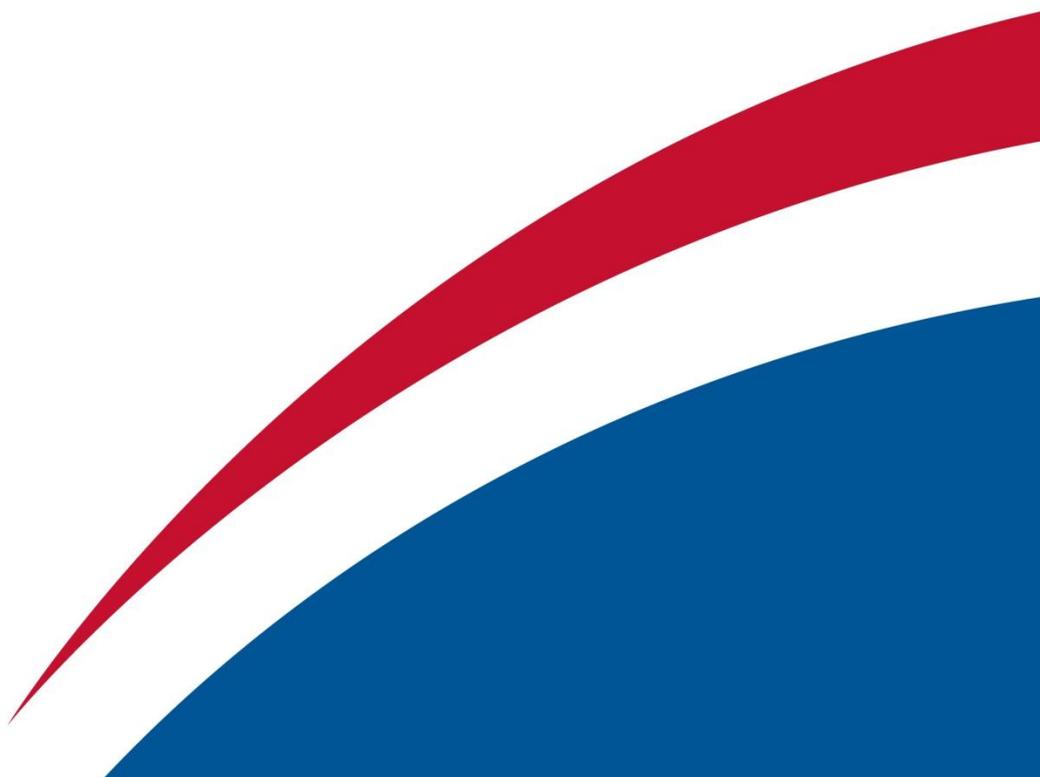
Improved Business Environment and Community Attraction:

Maximizing the available federal Medicaid resources will allow for the greatest possible provision of services to children and young adults with disabilities. Furthermore, as noted above, increased reimbursement of services will allow school districts to make the most of their resources and the local tax dollars collected from their respective communities. Through the realization of savings in areas such as related services, districts will be able to expand services in areas like college and career-readiness, better preparing students as they graduate and enter college and the workforce.



Section Four:

Financial Documentation



Section Four: Financial Documentation

Proposal Request:

The project partners respectfully request a loan in the amount of \$300,000.00 from the Local Government Innovation Council.

Three-Year Financial History:

Financial documentation for each of the project partners, including audited financial statements, for the three most recent fiscal years is included at the end of this section in Table 4.1.

In-kind Contributions:

The project partners are not claiming any in-kind contributions as part of this proposal.

Local Matching Funds:

The project partners will contribute an estimated \$1,031,400, or 77.47 percent, of the project's \$1,331,400 budget in the form of local matching funds over the course of the project. This total reflects the cost of the District Management Council's scheduling software system, dmStaffing. The project partners will also provide \$32.4 million in salaries and benefits for related services personnel over the first three years of the project for the provision of services, resulting in a total project cost of just less than \$33.8 million.

Three Year Financial Projections:

Table 4.1 illustrates the projected three year financial projections and anticipated savings. Total project costs, including the salaries and benefits of related services personnel will be approximately \$33.8 million. Of that total, an anticipated \$1.3 million will be allocated towards the purchase of dmStaffing. Included in this cost is the initial setup of the system, the collection and importation of data, and training of project partners. Costs in project years two and three for dmStaffing will be allocated towards updating data and hosting the software system. Other project costs will include salaries and benefits of related services personnel. These costs have been conservatively estimated to rise by three percent each year. The project's anticipated cost savings over the course of the first three years is expected to exceed \$1.9 million. Costs and savings in the following years are expected to be approximately the same as those of project year three.

Savings Description:

As noted above, the cost savings over the first three years of the project are anticipated to be greater than \$1.9 million. The cost savings will be the result of the increased efficiency in the scheduling of related services personnel. More efficient scheduling of practitioners will provide for more direct service time with student, which in turn, will allow for a greater percentage of costs to be reimbursed by Medicaid. The project partners, through internal analyses, estimate that the percentage of costs that are currently reimbursable by Medicaid is 37 percent. Through the implementation of dmStaffing, the project partners believe that it is realistic to increase the percentage of costs that are reimbursed by Medicaid to 47 percent, a gain of ten percentage

points. The savings from the project will equate to the difference between the current (37 percent) and future (projected 47 percent) rate of Medicaid reimbursed costs minus the cost of the scheduling software system. As previously indicated, savings after the third year of the project are estimated to be similar to those provided in the year three projection below, which are anticipated to exceed \$948,000.

Expected Annual Savings:

In the first three years of the project, annual savings will vary greatly. This is largely based upon the cost of the dmStaffing scheduling software for each respective year. For example, in the first year of the project, savings are expected to be slightly less than \$800,000 with a cost for dmStaffing set at \$256,000. The projected savings shrinks in year two as the allocation towards dmStaffing rises to more than \$900,000. For project year three, which should be similar in cost and recouped savings to successive years, the price of dmStaffing will be \$166,200 and savings will be just under \$950,000.

The variance in costs for dmStaffing between years is based on pricing provided by the District Management Council, the owner of dmStaffing. According to the District Management Council, training of staff and data importing will be at their highest during the first two years of implementation, resulting in the higher costs during those years. As previously noted, other project costs, which include the salaries and benefits of related services personnel, are expected to increase annually by three percent.

Expected One-time Savings:

A one-time savings is not expected as a result of this project. By scheduling services more efficiently, the project partners believe they can provide services to a greater number of school children with the current number of employees.

Repayment:

Repayment of the proposed loan will be made through cost savings realized as a result of the project. As previously noted, the projected cost savings over the first three years of the project are expected to exceed \$1.9 million. However, should savings not reach the anticipated levels, each of the participating agencies will utilize cash reserves to repay the loan amount.

Table 4.1: Three Year Financial Projections and Anticipated Savings

Entity	Current Year ¹		Project Year One ²		
	Cost	Medicaid Reimbursement	Projected Cost	Medicaid Reimbursement	Projected Savings
ESC of Central Ohio	\$3,069,424	\$1,135,690	\$3,161,507	\$1,485,908	\$316,151
North Central ESC	\$3,215,625	\$1,189,781	\$3,312,094	\$1,556,684	\$331,209
Franklin County Board of DD	\$3,912,583	\$1,447,656	\$4,029,960	\$1,894,081	\$402,996
Cost of dmStaffing	N/A	N/A	\$256,200	\$0	
Total	\$10,197,632	\$3,773,127	\$10,759,761	\$4,936,674	\$794,156

Entity	Project Year Two ²			Project Year Three ²		
	Projected Cost	Medicaid Reimbursement	Projected Savings	Projected Cost	Medicaid Reimbursement	Projected Savings
ESC of Central Ohio	\$3,256,352	\$1,530,485	\$325,635	\$3,354,042	\$1,576,400	\$335,404.24
North Central ESC	\$3,411,457	\$1,603,385	\$341,146	\$3,513,800	\$1,651,486	\$351,380.03
Franklin County Board of DD	\$4,150,859	\$1,950,904	\$415,086	\$4,275,385	\$2,009,431	\$427,538.51
Cost of dmStaffing	\$909,000	\$0		\$166,200	\$0	
Total	\$11,727,668	\$5,084,774	\$172,867	\$11,309,428	\$5,237,317	\$948,122.77

Total Project Cost: \$33,796,856

Anticipated Savings: \$1,925,145.63

¹Projected Medicaid reimbursement of 37 percent

²Projected Medicaid reimbursement of 47 percent

Three Year Financial History: Educational Service Center of Central Ohio

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2008***

ALAN HUTCHINSON, TREASURER



Mary Taylor, CPA
Auditor of State

Governing Board
Educational Service Center of Franklin County
2080 Citygate Drive
Columbus, Ohio 43219

We have reviewed the *Independent Auditor's Report* of the Educational Service Center of Franklin County, prepared by Julian & Grube, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Educational Service Center of Franklin County is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 7, 2009

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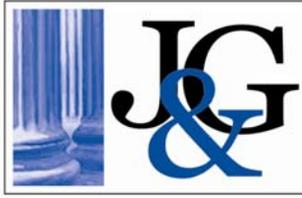
EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Governing Board
Educational Service Center of Franklin County
2080 Citygate Drive
Columbus, OH 43219

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Franklin County, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise the Educational Service Center of Franklin County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center of Franklin County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Franklin County, Franklin County, Ohio, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

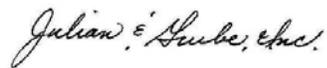
As disclosed in Note 3.B., the Center reported a prior period restatement due to fund reclassification at July 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2009, on our consideration of the Educational Service Center of Franklin County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditor's Report
Educational Service Center of Franklin County
Page Two

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



Julian & Grube, Inc.
January 30, 2009

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The management's discussion and analysis of the Educational Service Center of Franklin County's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- The Center restated beginning net assets as described in Note 3.B. In total, net assets of governmental activities increased \$1,036,889 which represents a 7.81% increase from 2007.
- General revenues accounted for \$4,154,499 in revenue or 9.45% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$39,809,425 or 90.55% of total revenues of \$43,963,924.
- The Center had \$42,927,035 in expenses related to governmental activities; \$39,809,425 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$4,154,499 were adequate to provide for these programs.
- The Center restated beginning fund balances as described in Note 3.B. The Center's major governmental funds include the general fund and the Title VI-B special revenue fund. The general fund had \$30,059,094 in revenues and other financing sources and \$29,317,626 in expenditures and other financing uses. During fiscal year 2008, the general fund's fund balance increased \$741,468 from \$7,395,816 to \$8,137,284.
- The Title VI-B special revenue fund had \$5,308,668 in revenues and other financing sources and \$4,527,841 in expenditures and other financing uses. During fiscal year 2008, its fund balance increased \$780,827 from a deficit fund balance of \$202,440 to \$578,387.

Using these Basic Financial Statements (BFS)

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

The *statement of net assets* and *statement of activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other nonmajor funds presented in total in one column. The Center reports the general fund and Title VI-B fund as major funds.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include increased or decreased services desired by school districts, State budget cuts, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the Center's programs and services, including instruction, support services, and other operations.

The Center's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 9. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary Fund

The District maintains only one type of proprietary fund. The internal service fund is an accounting device used to accumulate and allocate costs internally among the District's various functions. The District has one internal service fund that accounts for a self-insurance program which provides health and dental benefits to. The basic proprietary fund financial statements can be found on pages 19-21 of this report.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Reporting the Center's Fiduciary Responsibilities

The Center maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the Center's fiduciary activities are reported in a separate statement of fiduciary net assets on page 22. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-45 of this report.

The Center as a Whole

The statement of net assets provides the perspective of the Center as a whole.

The Center restated net assets as described in Note 3.B. The table below provides a summary of the Center's net assets for 2008 and 2007.

	Net Assets	
	Governmental Activities <u>2008</u>	Restated Governmental Activities <u>2007</u>
<u>Assets</u>		
Current and other assets	\$ 17,798,819	\$ 17,269,786
Capital assets	<u>5,595,515</u>	<u>5,701,055</u>
Total assets	<u>23,394,334</u>	<u>22,970,841</u>
<u>Liabilities</u>		
Current liabilities	4,264,663	5,011,397
Long-term liabilities	<u>4,814,422</u>	<u>4,681,087</u>
Total liabilities	<u>9,079,085</u>	<u>9,692,484</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,053,105	2,201,055
Restricted	3,551,105	3,320,877
Unrestricted	<u>8,711,039</u>	<u>7,756,428</u>
Total net assets	<u>\$ 14,315,249</u>	<u>\$ 13,278,360</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the Center's assets exceeded liabilities by \$14,315,249. Of this total, \$8,711,039 is unrestricted in use.

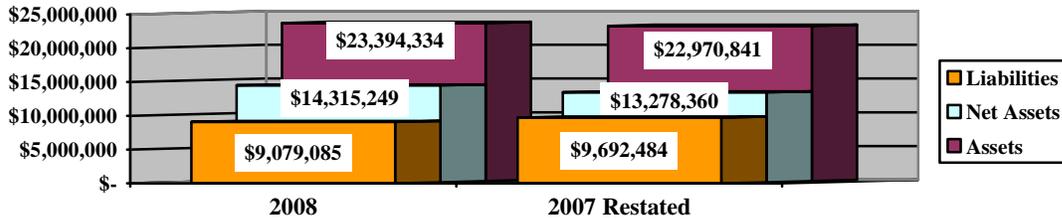
**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

At year-end, capital assets represented 23.92% of total assets. Capital assets include land, buildings, furniture and equipment and vehicles. Capital assets, net of related debt at June 30, 2008, were \$2,053,105. These capital assets are used to provide the Center's services and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net assets, \$3,551,105, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$8,711,039 may be used to meet the Center's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2008 and restated 2007.

	Change in Net Assets	
	Governmental	Restated
	Activities	Governmental
	2008	2007
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 29,614,846	\$ 22,952,725
Operating grants and contributions	10,194,579	10,006,757
General revenues:		
Grants and entitlements	3,632,859	3,894,353
Investment earnings	390,122	514,574
Other	<u>131,518</u>	<u>73,152</u>
Total revenues	<u>\$ 43,963,924</u>	<u>\$ 37,441,561</u>

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Change in Net Assets	
	Governmental	Restated
	Activities	Governmental
	<u>2008</u>	<u>2007</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Special	\$ 399,725	\$ 142,073
Vocational	12,147,515	10,893,341
Other	429,099	232,465
Support services:		
Pupil	665,771	471,314
Instructional staff	16,593,124	14,886,616
Board of education	158,852	117,392
Administration	8,887,008	8,100,161
Fiscal	1,655,167	1,238,778
Business	260,984	259,002
Operations and maintenance	646,962	986,982
Pupil transportation	29,230	28,930
Central	884,267	546,943
Extracurricular	320	-
Interest and fiscal charges	<u>169,011</u>	<u>82,603</u>
Total expenses	<u>42,927,035</u>	<u>37,986,600</u>
Change in net assets	1,036,889	(545,039)
Net assets at beginning of year	<u>13,278,360</u>	<u>13,823,399</u>
Net assets at end of year	<u>\$ 14,315,249</u>	<u>\$ 13,278,360</u>

Governmental Activities

Net assets of the Center's governmental activities increased \$1,036,889 during fiscal year 2008. Total governmental expenses of \$42,927,035 were offset by program revenues of \$39,809,425 and general revenues of \$4,154,499. Program revenues supported 92.74% of the total governmental expenses.

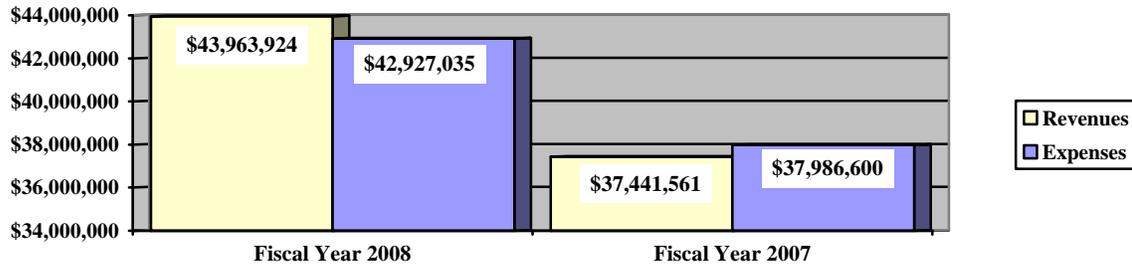
The primary sources of revenue for governmental activities are derived from tuition and contracted fees for services provided to other entities. This revenue source represents 67.36% of total governmental revenue.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2008 and 2007.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted state grants and entitlements, and other general revenues not restricted to a specific program.

Governmental Activities

	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>	Restated Total Cost of Services <u>2007</u>	Restated Net Cost of Services <u>2007</u>
Program expenses				
Instruction:				
Special	\$ 399,725	\$ 6,776	\$ 142,073	\$ (104,138)
Vocational	12,147,515	590,334	10,893,341	169,500
Other	429,099	429,099	232,465	232,465
Support services:				
Pupil	665,771	460,630	471,314	91,111
Instructional staff	16,593,124	589,798	14,886,616	842,827
Board of education	158,852	158,852	117,392	117,392
Administration	8,887,008	80,885	8,100,161	1,959,911
Fiscal	1,655,167	28,651	1,238,778	705,084
Business	260,984	14,823	259,002	(207,803)
Operations and maintenance	646,962	353,331	986,982	622,210
Pupil transportation	29,230	29,230	28,930	28,930
Central	884,267	205,870	546,943	487,026
Extracurricular	320	320	-	-
Interest and fiscal charges	169,011	169,011	82,603	82,603
Total expenses	<u>\$ 42,927,035</u>	<u>\$ 3,117,610</u>	<u>\$ 37,986,600</u>	<u>\$ 5,027,118</u>

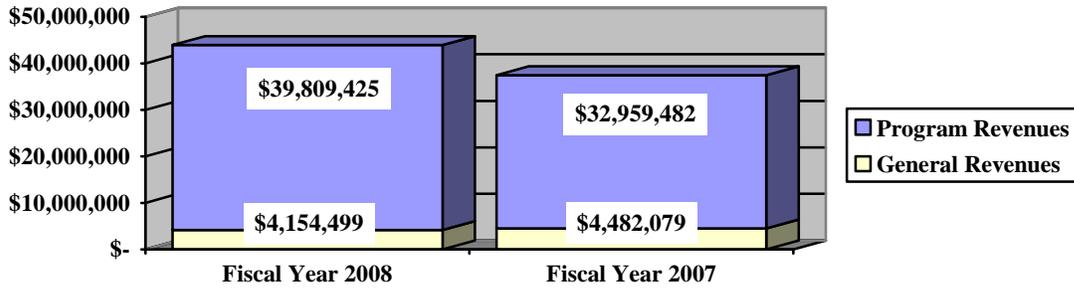
For all governmental activities, program revenue support is 92.74% at June 30, 2008 and 86.77% at June 30, 2007. The primary support of the Center is contracted fees for services provided to other districts.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The graph below presents the Center's governmental activities revenue for fiscal year 2008 and 2007.

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$11,137,476, which is higher than last year's total of \$9,228,140 as restated in Note 3.B. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	Fund Balance <u>June 30, 2008</u>	Restated Fund Balance <u>June 30, 2007</u>	Increase (Decrease)
General	\$ 8,137,284	\$ 7,395,816	\$ 741,468
Title VI-B	578,387	(202,440)	780,827
Other Governmental	<u>2,421,805</u>	<u>2,034,764</u>	<u>387,041</u>
Total	<u>\$ 11,137,476</u>	<u>\$ 9,228,140</u>	<u>\$ 1,909,336</u>

General Fund

The Center's general fund balance increased in fiscal year 2008 by \$741,468. The increase in fund balance can be attributed to an increase in tuition revenue and a decrease in facilities acquisition and construction expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Tuition	\$ 14,750,587	\$ 11,283,587	30.73 %
Customer services	10,980,183	10,932,213	0.44 %
Earnings on investments	379,679	514,574	(26.21) %
Intergovernmental	3,632,859	3,894,353	(6.71) %
Other revenues	<u>131,518</u>	<u>211,395</u>	(37.79) %
Total	<u>\$ 29,874,826</u>	<u>\$ 26,836,122</u>	11.32 %
<u>Expenditures</u>			
Instruction	\$ 11,111,220	\$ 10,684,252	4.00 %
Support services	17,759,792	16,123,943	10.15 %
Facilities acquisition and construction	66,170	3,503,318	(98.11) %
Debt service	<u>322,169</u>	<u>-</u>	100.00 %
Total	<u>\$ 29,259,351</u>	<u>\$ 30,311,513</u>	(3.47) %

Tuition revenues increased due to more revenues received from the local and city school districts the Center serves. Earnings on investments decreased as a result of lower interest rates. The increase in instruction and support services is due to overall increasing wage and benefits expenditures. The decrease in facilities acquisition and construction is due to the Center entering into a lease purchase agreement in 2007. Debt service expenditures increased as the Center began making lease payments on the new office building in fiscal year 2008.

Title VI-B Fund

During fiscal year 2008, the Title VI-B fund balance increased \$780,827. The increase in fund balance can be attributed to a decrease of administration expenditures during the year and an increase in grant revenues received by fiscal year-end that in 2007 were reported as deferred revenue. Revenues and other financing sources totaled \$5,308,668 and expenditures totaled \$4,527,841 during fiscal year 2008.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Capital Assets and Debt Administration

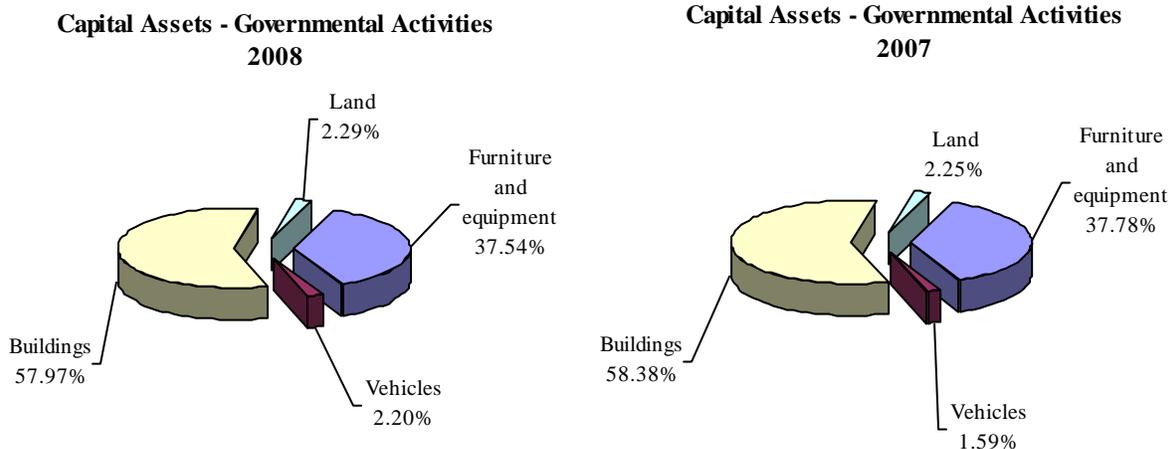
Capital Assets

At the end of fiscal year 2008, the Center had \$5,595,515 invested in land, buildings, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2008 balances compared to 2007:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Land	\$ 128,300	\$ 128,300
Buildings	3,243,657	3,327,950
Furniture and equipment	2,100,485	2,153,935
Vehicles	<u>123,073</u>	<u>90,870</u>
Total	<u>\$ 5,595,515</u>	<u>\$ 5,701,055</u>

Total additions to capital assets for 2008 were \$456,878. A total of \$557,939 in depreciation expense was recognized and disposals were \$4,479 (net of accumulated depreciation) for fiscal year 2008.

The graphs below present the Center's capital assets for fiscal years 2008 and 2007.



See Note 7 to the basic financial statements for additional information on the Center's capital assets.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Debt Administration

At June 30, 2008 the Center had \$3,542,410 in a lease purchase and capital lease agreement outstanding. Of this total, \$229,544 is due within one year and \$3,312,866 is due within greater than one year. The following table summarizes the debt outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
Lease Purchase Agreement	\$ 3,330,000	\$ 3,500,000
Capital lease obligations	<u>212,410</u>	<u>-</u>
Total	<u>\$ 3,542,410</u>	<u>\$ 3,500,000</u>

See Note 9 to the basic financial statements for detail on the Center's debt administration.

Current Financial Related Activities

The Center is in a stable financial position at the end of June 2008. The Governing Board has a permanent improvement fund to cover possible future office space needs or payment of office building rental, and future technology equipment needs. Legislative requirements for the development of Ohio Educational Regional Service System will have an impact on educational service centers in the future. At this time, it is impossible to determine what effect this legislation will have on the Educational Service Center of Franklin County.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. Questions regarding this report or requests for need additional financial information should be directed to Mr. Alan Hutchinson, Treasurer, Educational Service Center of Franklin County, 2080 Citygate Dr., Columbus, Ohio 43219.

**BASIC
FINANCIAL STATEMENTS**

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 11,593,808
Receivables:	
Accounts	53,015
Intergovernmental	5,963,241
Accrued interest	10,463
Prepayments	81,787
Loans	96,505
Capital assets:	
Land	128,300
Depreciable capital assets, net	5,467,215
Capital assets, net.	5,595,515
 Total assets.	 23,394,334
Liabilities:	
Accounts payable.	416,300
Accrued wages and benefits	2,706,229
Intergovernmental payable	686,186
Claims payable	444,241
Accrued interest payable	11,707
Long-term liabilities:	
Due within one year.	787,108
Due in more than one year	4,027,314
 Total liabilities	 9,079,085
Net Assets:	
Invested in capital assets, net of related debt.	2,053,105
Restricted for:	
Capital projects	676,703
State funded programs	1,066,020
Federally funded programs	1,804,567
Public school support.	3,815
Unrestricted.	8,711,039
 Total net assets	 \$ 14,315,249

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 399,725	\$ 270,318	\$ 122,631	\$ (6,776)
Special	12,147,515	10,312,804	1,244,377	(590,334)
Vocational	429,099	-	-	(429,099)
Support services:				
Pupil.	665,771	73,082	132,059	(460,630)
Instructional staff.	16,593,124	13,391,445	2,611,881	(589,798)
Board of education	158,852	-	-	(158,852)
Administration.	8,887,008	3,723,774	5,082,349	(80,885)
Fiscal.	1,655,167	919,855	706,661	(28,651)
Business.	260,984	246,161	-	(14,823)
Operations and maintenance	646,962	-	293,631	(353,331)
Pupil transportation	29,230	-	-	(29,230)
Central.	884,267	677,407	990	(205,870)
Extracurricular activities	320	-	-	(320)
Interest and fiscal charges	169,011	-	-	(169,011)
Total governmental activities	<u>\$ 42,927,035</u>	<u>\$ 29,614,846</u>	<u>\$ 10,194,579</u>	<u>(3,117,610)</u>
General Revenues:				
Grants and entitlements not restricted				
to specific programs				3,632,859
Investment earnings				390,122
Miscellaneous				131,518
Total general revenues.				4,154,499
Change in net assets				1,036,889
Net assets at beginning of year (restated)				13,278,360
Net assets at end of year.				\$ 14,315,249

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 8,164,384	\$ 243,335	\$ 2,379,542	\$ 10,787,261
Receivables:				
Accounts	199	-	52,816	53,015
Intergovernmental	3,152,492	1,428,445	1,382,304	5,963,241
Accrued interest	10,463	-	-	10,463
Interfund loans	567,757	-	-	567,757
Due from other funds	349,788	-	-	349,788
Prepayments	53,405	14,293	14,089	81,787
Loans	96,505	-	-	96,505
	<u>12,394,993</u>	<u>1,686,073</u>	<u>3,828,751</u>	<u>17,909,817</u>
Total assets	<u>\$ 12,394,993</u>	<u>\$ 1,686,073</u>	<u>\$ 3,828,751</u>	<u>\$ 17,909,817</u>
Liabilities:				
Accounts payable	\$ 154,005	\$ 87,663	\$ 174,632	\$ 416,300
Accrued wages and benefits	2,399,734	152,863	153,632	2,706,229
Compensated absences payable	10,629	1,871	4,678	17,178
Intergovernmental payable	566,810	50,369	69,007	686,186
Interfund loan payable	-	-	567,757	567,757
Due to other funds	-	-	349,788	349,788
Deferred revenue	1,126,531	814,920	87,452	2,028,903
	<u>4,257,709</u>	<u>1,107,686</u>	<u>1,406,946</u>	<u>6,772,341</u>
Total liabilities	<u>4,257,709</u>	<u>1,107,686</u>	<u>1,406,946</u>	<u>6,772,341</u>
Fund Balances:				
Reserved for encumbrances	461,656	369,840	1,037,670	1,869,166
Reserved for prepayments	53,405	14,293	14,089	81,787
Unreserved, undesignated, reported in:				
General fund	7,622,223	-	-	7,622,223
Special revenue funds	-	194,254	693,343	887,597
Capital projects funds	-	-	676,703	676,703
	<u>8,137,284</u>	<u>578,387</u>	<u>2,421,805</u>	<u>11,137,476</u>
Total fund balances	<u>8,137,284</u>	<u>578,387</u>	<u>2,421,805</u>	<u>11,137,476</u>
Total liabilities and fund balances	<u>\$ 12,394,993</u>	<u>\$ 1,686,073</u>	<u>\$ 3,828,751</u>	<u>\$ 17,909,817</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

Total governmental fund balances		\$ 11,137,476
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,595,515
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Tuition and customer services	1,116,068	
Intergovernmental	902,372	
Accrued interest receivable	10,463	
Total		2,028,903
Internal service funds are used by management to charge the costs of insurance to individual funds. The assts and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.		362,306
In the statement of activities, interest is accrued on the lease purchase agreement, whereas in governmental funds, interest is expensed when due.		(11,707)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,254,834)	
Capital lease obligation	(212,410)	
Lease purchase agreement	(3,330,000)	
Total		(4,797,244)
Net assets of governmental activities		\$ 14,315,249

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition.	\$ 14,750,587	\$ -	\$ -	\$ 14,750,587
Customer services.	10,980,183	-	3,143,839	14,124,022
Earnings on investments.	379,659	-	-	379,659
Rental income.	90,040	-	-	90,040
Other local revenues.	41,478	-	2,400	43,878
Other revenue.	-	-	40,413	40,413
Intergovernmental - State.	3,632,859	-	2,826,906	6,459,765
Intergovernmental - Federal.	-	5,040,004	3,255,712	8,295,716
Total revenue.	<u>29,874,806</u>	<u>5,040,004</u>	<u>9,269,270</u>	<u>44,184,080</u>
Expenditures:				
Current:				
Instruction:				
Regular.	15,213	-	361,976	377,189
Special.	10,675,336	16,944	1,328,537	12,020,817
Vocational.	420,671	-	-	420,671
Support services:				
Pupil.	458,784	-	191,201	649,985
Instructional staff.	13,295,763	1,005,902	2,132,052	16,433,717
Board of education.	158,852	-	-	158,852
Administration.	1,851,221	2,726,058	4,004,375	8,581,654
Fiscal.	804,707	194,799	653,047	1,652,553
Business.	256,086	-	-	256,086
Operations and maintenance.	253,983	254,283	6,831	515,097
Pupil transportation.	26,229	-	-	26,229
Central.	654,167	-	71,430	725,597
Extracurricular activities.	-	-	320	320
Facilities acquisition and construction.	66,170	-	-	66,170
Capital outlay.	-	261,917	-	261,917
Debt service:				
Principal retirement.	170,000	49,507	-	219,507
Interest and fiscal charges.	152,169	18,131	-	170,300
Total expenditures.	<u>29,259,351</u>	<u>4,527,541</u>	<u>8,749,769</u>	<u>42,536,661</u>
Excess of revenues over expenditures.	<u>615,455</u>	<u>512,463</u>	<u>519,501</u>	<u>1,647,419</u>
Other financing sources (uses):				
Transfers in.	184,288	6,747	69,546	260,581
Transfers (out).	(58,275)	(300)	(202,006)	(260,581)
Capital lease transaction.	-	261,917	-	261,917
Total other financing sources (uses).	<u>126,013</u>	<u>268,364</u>	<u>(132,460)</u>	<u>261,917</u>
Net change in fund balances.	741,468	780,827	387,041	1,909,336
Fund balances (deficit) at beginning of year (restated).	<u>7,395,816</u>	<u>(202,440)</u>	<u>2,034,764</u>	<u>9,228,140</u>
Fund balances at end of year.	<u>\$ 8,137,284</u>	<u>\$ 578,387</u>	<u>\$ 2,421,805</u>	<u>\$ 11,137,476</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds	\$	1,909,336
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Governmental funds report capital outlays as expenditures. However, in 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 expense exceeds capital outlays in the current period.</p>		
Capital asset additions	456,878	
Current year depreciation	<u>(557,939)</u>	
Total		(101,061)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(4,479)
<p>Proceeds of capital lease transactions are recorded as revenue in the governmental funds, however, the proceeds increase long-term liabilities on the statement of net assets.</p>		
		(261,917)
<p>Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.</p>		
		219,507
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Tuition and customer services	740,187	
Intergovernmental revenue	(970,806)	
Earnings on investments	<u>10,463</u>	
Total		(220,156)
<p>The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.</p>		
		(431,883)
<p>In the statement of activities, interest is accrued on the lease purchase agreement, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		1,289
<p>Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>(73,747)</u>
Change in net assets of governmental activities	\$	<u>1,036,889</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 806,547
Total assets	806,547
Liabilities:	
Claims payable	444,241
Total liabilities	444,241
Net assets:	
Unrestricted	362,306
Total net assets	\$ 362,306

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Governmental Activities - Internal Service Fund
	<hr/>
Operating revenues:	
Charges for services	\$ 5,609,801
Total operating revenues	<hr/> 5,609,801 <hr/>
Operating expenses:	
Claims.	<hr/> 6,041,684
Total operating expenses	<hr/> 6,041,684 <hr/>
Operating loss/change in net assets	(431,883)
Net assets at beginning of year (restated). .	794,189
Net assets at end of year	<hr/> \$ 362,306 <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 5,609,801
Cash payments for claims	<u>(6,033,593)</u>
Net cash used in operating activities	<u>(423,792)</u>
Net decrease in cash and cash equivalents	(423,792)
Cash and cash equivalents at beginning of year (restated)	<u>1,230,339</u>
Cash and cash equivalents at end of year.	<u><u>\$ 806,547</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (431,883)
Changes in assets and liabilities:	
Increase in claims payable.	<u>8,091</u>
Net cash used in operating activities	<u><u>\$ (423,792)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 1,214,160
Receivables:	
Accounts	70,590
Intergovernmental	1,065,862
Prepayments	7,752
Total assets.	\$ 2,358,364
Liabilities:	
Accounts payable.	\$ 419,533
Accrued wages and benefits	150,816
Compensated absences payable	9,012
Intergovernmental payable	1,682,498
Loans payable.	96,505
Total liabilities	\$ 2,358,364

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 - DESCRIPTION OF THE CENTER

The Educational Service Center of Franklin County (the "Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio.

The Center operates under a locally-elected five member Governing Board form of government and provides educational services as mandated by State or federal agencies. The Governing Board controls the Center's staff that provides services to over 89,204 students and other community members in Franklin County.

The Center provides services in the area of special education classes, supervision, administration, fiscal and other needed services to four local school Centers in Franklin County and also has city/county agreements with nine city school Centers. In addition, the Center provides contracted services to eleven school Centers and fiscal services for various state and local agencies such as the Central Ohio Special Education Regional Resource Center, Ohio Department of Education projects, Ohio Coalition of Children with Disabilities and the Catholic Diocese.

The Center serves local school Centers: Canal Winchester Local School Center, Groveport Madison Local School Center, Hamilton Local School Center, New Albany/Plain Local School Center and city school Centers as provided by S.B. 140, O.R.C. Section 3313.483. Other school Centers outside Franklin County are served on an individual contract basis for various services.

The Center is located in Columbus, Ohio and is staffed by 41 administrators, 222 certified and 435 non-certified personnel.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations and student related activities of the Center.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise have access to organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government). The following organizations are described due to their relationship with the Center.

The Center is the fiscal agent for the Franklin County Family and Children First Council (the "Council"). The Center is responsible for receiving and disbursing funds at the direction of the Council. This entity is legally separate from the Center. The Center is the fiscal agent and custodian for the Council, but is not accountable; therefore, the operations of the Council have been included as an agency fund in the Center's basic financial statements. The funds invested on behalf of the Council have been included in the basic financial statements as "equity in pooled cash and cash equivalents".

JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council (the "MEC") - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school Centers and educational service centers in Franklin County and surrounding areas by cooperative action membership. The Governing Board consists of a representative from each of the Franklin County School Centers and the Center. School Centers and educational service centers outside of Franklin County are associate members and each county selects a single Center or center to represent them on the Governing Board. MEC is its own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the Center.

B. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following are the Center's major governmental funds:

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

Title VI-B Fund - The Title VI-B is used to account for Federal monies which assist States in the identification of handicapped children, and provision of full educational opportunities to handicapped children at the preschool, elementary and secondary levels.

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the Center's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is a description of the Center's proprietary fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Center, or to other governments, on a cost-reimbursement basis. The internal service fund of the Center accounts for a self-insurance program which provides medical benefits to employees.

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 Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency funds account for various resources held for other organizations and individuals.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the Center that are governmental and those that are considered business-type.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Center and for each function or program of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Center. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Center.

Fund Financial Statements - Fund financial statements report detailed information about the Center. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Center finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Center's internal service funds is charges for services. Operating expenses for internal service funds include charges for services and claims expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

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. Proprietary and fiduciary funds also use the accrual basis of accounting.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations.

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 year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a 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 to be both measurable and available at fiscal year-end: tuition, grants, and contract services.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. 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 have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In fiscal year 2004, the Center requirement to file budgetary information with the Ohio Department of Education was eliminated and the Center has elected to not present budgetary schedules as supplementary information for fiscal year 2008. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated resources. The Center's Board adopts an annual appropriation resolution, which is the Board's, authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds.

F. Cash and Investments

To improve cash management, cash received by the Center is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2008, investments were limited to investments in the State Treasury Asset Reserve (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices, with the following exception: investment contracts that had a remaining maturity of one year or less at the time of purchase are reported at amortized cost.

The Center has invested funds in STAR Ohio during fiscal year 2008. 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 shares price which is the price the investment could be sold for on June 30, 2008.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund or the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$379,659, which includes \$132,534 assigned from other Center funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Center's investment account at fiscal year-end is provided in Note 4.

G. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$1,000. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All reported capital assets except land 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Building	40 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 15 years

H. Compensated Absences

The Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments.

All employees with eight or more years of service were included in the calculation of the long-term compensated absences accrual amount. Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2008 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available 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 noncurrent portion of the liability is not reported.

I. Accrued Liabilities and Long-Term Obligations

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

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Lease purchase agreements and capital leases are recognized as a liability on the fund financial statements when due.

J. Fund Balance Reserves

The Center reserves those 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 encumbrances and prepayments.

K. Net Assets

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

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

L. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

M. Estimates

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Interfund Activity

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

P. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." On fund financial statements, receivables and payables to cover deficit cash balances are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column on the statement of net assets.

Loans between governmental funds and agency funds are reported as "loans receivable/payable" on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2008, the Center has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the Center; however, certain disclosures related to postemployment benefits (see Note 13) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the Center.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the Center.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Fund Reclassification and Restatement of Fund Balances/Net Assets

A restatement of fund balances and net assets is required to reclassify certain funds to better reflect the purpose of the funds. The Leadership Academy fund, previously reported as a nonmajor internal service fund, has been reclassified as a component of the general fund. In addition, certain funds have been reclassified between special revenue and agency funds in order to properly report the funds in which the Center acts in the capacity of fiscal agent as agency funds. These fund reclassifications had the following effect on the Center's governmental fund balances and net assets as previously reported:

	<u>General</u>	<u>Title VI-B</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance at June 30, 2007	\$ 7,378,145	\$ 19,477	\$ 1,962,616	\$ 9,360,238
Adjustment for fund reclassifications	17,671	(221,917)	72,148	(132,098)
Restated fund balance at July 1, 2007	\$ 7,395,816	\$ (202,440)	\$ 2,034,764	\$ 9,228,140

	<u>Governmental Activities</u>	<u>Internal Service</u>
Net assets as at June 30, 2007	\$ 13,602,739	\$ 811,860
Adjustment for fund reclassifications	(324,379)	(17,671)
Restated net assets at July 1, 2007	\$ 13,278,360	\$ 794,189

As a result of the reclassification of the Leadership Academy fund, which was previously a nonmajor internal service fund, in the statement of cash flows, the beginning cash and cash equivalents of the nonmajor internal service fund has been restated from \$1,256,002 at June 30, 2007 to \$1,230,339 at July 1, 2007.

C. Deficit Fund Balances

Fund balances at June 30, 2008 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Refugee childrens school	\$ 10,853
Title I	458

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

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FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Governing 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the 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.

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 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the Center had \$750 in undeposited cash on hand which is included on the financial statements of the Center as part of "equity in pooled cash and cash equivalents."

B. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all Center deposits was \$12,498,955. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$14,607,770 of the Center's bank balance of \$15,107,770 was exposed to custodial risk as discussed below, while \$500,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center. The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

C. Investments

As of June 30, 2008, the Center had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 308,263	\$ 308,263

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Center's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 308,263	<u>100%</u>

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 12,498,955
Investments	308,263
Cash on hand	<u>750</u>
Total	<u>\$ 12,807,968</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 11,593,808
Agency funds	<u>1,214,160</u>
Total	<u>\$ 12,807,968</u>

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2008 as reported on the fund statements, consist of the following individual short-term interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 567,757

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

- B. Interfund balances at June 30, 2008 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 349,788

The primary purpose of the due to/from other funds is to cover negative cash at fiscal year-end. The interfund balances will be repaid once the anticipated revenues are received. Effective April 1, 2007, district's may maintain a negative cash balance if two criteria are met: (1) general fund must have available funds to cover negative; (2) a reimbursement request must have been submitted. The Center met these two requirements. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

- C. Interfund transfers for the fiscal year ended June 30, 2008, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>		<u>Amount</u>
Title VI-B		\$ 6,747
Nonmajor governmental funds		<u>51,528</u>
		<u>58,275</u>
 <u>Transfers from Title VI-B fund to:</u>		
General fund		300
 <u>Transfers from nonmajor governmental funds to:</u>		
General fund		183,988
Nonmajor governmental funds		<u>18,018</u>
		<u>202,006</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The purpose of the transfers to the general fund was for residual equity transfers to close out various grant funds.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

D. Loans between governmental funds and agency funds to cover negative cash at fiscal year-end are reported as "loans receivable/payable" on the financial statements. The Center had the following loans outstanding at fiscal year end:

<u>Loan from</u>	<u>Loan to</u>	<u>Amount</u>
General	Agency	\$ 96,505

This loan is expected to be repaid in the subsequent year as resources become available in the agency fund.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2008 consisted of intergovernmental (billings to school Centers for user charged services), accounts (charges for individual tuition on other services) and accrued interest. All receivables are considered collectible in full. A summary of the items of receivables reported on the statement of net assets follows:

Governmental activities:

Accounts	\$ 53,015
Intergovernmental	5,963,241
Accrued interest	10,643

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>06/30/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/08</u>
<i>Capital assets, being depreciated:</i>				
Land	\$ 128,300	\$ -	\$ -	\$ 128,300
Buildings	3,371,700	-	-	3,371,700
Furniture and equipment	4,230,399	399,742	(37,408)	4,592,733
Vehicles	234,647	57,136	(18,030)	273,753
Total capital assets, being depreciated	<u>7,965,046</u>	<u>456,878</u>	<u>(55,438)</u>	<u>8,366,486</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(43,750)	(84,293)	-	(128,043)
Furniture and equipment	(2,076,464)	(450,516)	34,732	(2,492,248)
Vehicles	(143,777)	(23,130)	16,227	(150,680)
Total accumulated depreciation	<u>(2,263,991)</u>	<u>(557,939)</u>	<u>50,959</u>	<u>(2,770,971)</u>
Governmental activities capital assets, net	<u>\$ 5,701,055</u>	<u>\$ (101,061)</u>	<u>\$ (4,479)</u>	<u>\$ 5,595,515</u>

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Special	\$ 104,246
<u>Support services:</u>	
Instructional staff	21,892
Administration	155,848
Fiscal	3,529
Business	9,113
Operations and maintenance	72,577
Pupil transportation	3,001
Central	<u>187,733</u>
Accumulated depreciation	<u>\$ 557,939</u>

NOTE 8 - LEASE OBLIGATIONS - LESSEE DISCLOSURE

A. Lease-Purchase Agreement

On December 21, 2006, the Center entered into a fifteen year \$3,500,000 lease-purchase agreement to purchase the office building located at 2080 Citygate Drive, Columbus, Ohio. The lease-purchase agreement is with the OASBO Expanded Asset Pool Financing Program with bonds issued through the Columbus Regional Airport Authority. At June 30, 2008, capital assets acquired by lease purchase have been capitalized under land and buildings in the amount of \$128,300 and \$3,371,700, respectively. Accumulated depreciation on buildings as of June 30, 2008 was \$128,043 leaving a current book value of \$3,243,657. Lease-purchase payments have been reflected as debt service expenditures in the general fund. Principal and interest payments in fiscal year 2008 totaled \$170,000 and \$152,169, respectively.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2008.

<u>Fiscal Year Ending June 30,</u>	<u>Total</u>
2009	\$ 321,438
2010	321,373
2011	320,951
2012	321,151
2013	320,949
2014 - 2018	1,596,266
2019 - 2022	<u>1,269,475</u>
Total minimum lease payments	4,471,603
Less: amount representing interest	<u>(1,141,603)</u>
Present value of minimum lease payments	<u>\$ 3,330,000</u>

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - LEASE OBLIGATIONS - LESSEE DISCLOSURE - (Continued)

B. Capital Lease Agreement

In the current year the Center entered into capitalized leases for copier equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$261,917. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2008 totaled \$49,507 paid by the Title VI-B fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2008:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Amount</u>
2009	\$ 67,639
2010	67,638
2011	67,638
2012	<u>43,146</u>
Total minimum lease payment	246,061
Less: amount representing interest	<u>(33,651)</u>
Present value of minimum lease payments	<u>\$ 212,410</u>

NOTE 9 - LONG-TERM OBLIGATIONS

The Center's long-term obligations at fiscal year-end consist of the following:

	<u>Balance</u> <u>Outstanding</u> <u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Outstanding</u> <u>06/30/08</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Compensated absences	\$ 1,181,087	\$ 605,508	\$ (514,583)	\$ 1,272,012	\$ 557,564
Capital lease	-	261,917	(49,507)	212,410	52,544
Lease purchase agreement	<u>3,500,000</u>	<u>-</u>	<u>(170,000)</u>	<u>3,330,000</u>	<u>177,000</u>
Total long-term obligations	<u>\$ 4,681,087</u>	<u>\$ 867,425</u>	<u>\$ (734,090)</u>	<u>\$ 4,814,422</u>	<u>\$ 787,108</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid which is primarily the general fund and Title VI-B. See Note 8 for details on the lease purchase agreement and capital lease.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 10 - RISK MANAGEMENT

A. General Risk

The 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. The Center has addressed the various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. Fleet insurance is maintained in the amount of \$1,000,000 for each occurrence.

The Center maintains replacement cost insurance on building contents in the amount of \$1,000,000 with supplemental coverage for computers and classroom equipment in the amount of \$1,000,000. Other insurance includes hired non-owned auto coverage for employees using their vehicles for Center business.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been a significant decrease in coverage for buildings and contents of 55 percent. There has been no significant reduction in other coverage.

B. Workers' Compensation Liability-Public Entity Risk Pool

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

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school Centers and educational service centers is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP.

Participation in the GRP is limited to school Centers and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - RISK MANAGEMENT - (Continued)

C. Health and Dental Insurance

The Center has established a self-insurance fund for health and dental insurance. Claims are administered by a third party administrator, Polaris Benefit Administrators. The Center pays 80% of contributions and employees pay 20%. These amounts are deposited monthly by check from the general fund, special revenue funds, and other agency funds in an account held by the Center. Expenses for claims are recorded as other expenses when claims are approved and paid. For internal control, check registers are submitted to the Treasurer weekly for approval. A monthly check register is e-mailed to the Treasurer. Canceled checks are received by the Treasurer's office and fiscal staff reconciles the bank statements.

A summary of changes in self-insurance claims:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Balance</u> <u>June 30, 2007</u>
Claims liability at beginning of year	\$ 436,150	\$ 393,499
Incurred claims	6,041,684	4,119,402
Claims paid	<u>(6,033,593)</u>	<u>(4,076,751)</u>
Claims liability at end of year	<u>\$ 444,241</u>	<u>\$ 436,150</u>

NOTE 11 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from Center policy and State laws. Only administrative and support personnel who are under a full year contract are eligible for vacation time.

The Superintendent, Deputy Superintendent, Treasurer and Directors receive twenty days of vacation per year. Certified employees on an eleven month contract receive ten days per year. All other full time employees earn up to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to employees upon termination of employment.

Classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
1 - 9	10
10 - 19	15
20 - Beyond	20

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis.

For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of thirty (30) days for employees with less than eight years of service and a maximum of fifty (50) days for employees with eight years or more of service.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements 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. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$1,199,479, \$1,188,161 and \$959,193, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 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 (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or 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 DC Plan 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 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 12 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$1,640,667, \$1,546,632, and \$1,473,812, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$44,834 made by the Center and \$72,812 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated 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 obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each 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 401h. For 2008, 4.18 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 2008, this amount was \$35,800.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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 Center's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$727,298, \$541,745, and \$506,955, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$86,425, \$80,795, and \$76,344, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The Center contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law 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 Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$126,205, \$118,972, and \$113,370, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

NOTE 14 - STATE FUNDING

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

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school Centers served by the 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 school Centers served by the Center through additional reductions in their resources provided through the State Foundation Program. The State Governing Board initiates and supervises the procedure under which the school Centers approve or disapprove the additional apportionment.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 15 - OPERATING LEASE - LESSEE DISCLOSURE

On May 21, 2007, the Center entered into a lease agreement on behalf of the Central Ohio Special Education Regional Resource Center with the Columbus City School District (the "Landlord") to rent space in the Glenmont Elementary School. The length of the lease shall be for a period of 60 months commencing September 1, 2007, and ending on August 31, 2012. Either party may terminate the lease with six months written notice provided the party seeking to terminate is not in default of the lease at the time notice is provided or at any time during the six month notice period.

The Center shall pay to the Landlord the annual base rent payable in monthly installments each in advance on the first day of each and every month during the term. The annual base rent shall be paid as follows:

<u>Lease Year</u>	<u>Annual Base Rent</u>	<u>Monthly Base Rent</u>
1	\$ 44,526	\$ 3,711
2	45,639	3,803
3	46,780	3,898
4	47,950	3,996
5	49,149	4,096

NOTE 16 - CONTINGENCIES

A. Grants

The Center receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

B. Litigation

The Center is not a party to legal proceedings that would have a material effect, if any, on the financial condition of the Center.

NOTE 17 - SIGNIFICANT SUBSEQUENT EVENTS

Effective January 1, 2009, the Educational Service Center of Franklin County and the Delaware-Union Educational Service Center merged to form the Educational Service Center of Central Ohio.

SUPPLEMENTARY INFORMATION

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(C) PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH OHIO DEPARTMENT OF EDUCATION				
Special Education Cluster:				
(B) Special Education_Grants to States	84.027	2006	\$ -	\$ 2,948
(B) Special Education_Grants to States	84.027	2006	4,469	-
(B) Special Education_Grants to States	84.027	2006	18,946	36,577
(B) Special Education_Grants to States	84.027	2007	490,413	545,276
(B) Special Education_Grants to States	84.027	2007	708,738	578,541
(B) Special Education_Grants to States	84.027	2008	1,519,770	1,607,100
(B) Special Education_Grants to States	84.027	2008	1,496,286	1,347,361
(B) Special Education_Grants to States	84.027	2008	184,225	177,619
Total Special Education _Grants to States			<u>4,422,847</u>	<u>4,295,422</u>
(B) Special Education_Preschool Grants	84.173	2007	12,937	9,369
(B) Special Education_Preschool Grants	84.173	2007	70,931	60,599
(B) Special Education_Preschool Grants	84.173	2008	40,962	43,928
Total Special Education_Preschool Grants			<u>124,830</u>	<u>113,896</u>
Total Special Education Cluster			<u>4,547,677</u>	<u>4,409,318</u>
(D) Fund for the Improvement of Education	84.215	N/A	115,028	91,273
(D) Fund for the Improvement of Education	84.215	N/A	142,760	218,658
Total Fund for the Improvement of Education			<u>257,788</u>	<u>309,931</u>
State Grants for Innovative Programs	84.298	2007	458	530
State Grants for Innovative Programs	84.298	2007	-	14,065
State Grants for Innovative Programs	84.298	2007	3,638	360
State Grants for Innovative Programs	84.298	2008	40,413	15,125
Total State Grants for Innovative Programs			<u>44,509</u>	<u>30,080</u>
Special Education - State Personnel Development	84.323	2005	61,487	37,060
Special Education - State Personnel Development	84.323	2007	9,375	88,416
Special Education - State Personnel Development	84.323	2008	5,009	-
Total Special Education - State Personnel Development			<u>75,871</u>	<u>125,476</u>
Research in Special Education	84.324	2008	-	12,590
Total Research in Special Education			<u>-</u>	<u>12,590</u>
English Language Acquisition Grants	84.365	2007	14,272	2,670
English Language Acquisition Grants	84.365	2008	42,496	37,415
Total English Language Acquisition Grants			<u>56,768</u>	<u>40,085</u>
Total U.S. Department of Education			<u>4,982,613</u>	<u>4,927,480</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH FRANKLIN COUNTY JOB AND FAMILY SERVICES				
Temporary Assistance for Needy Families	93.558	2008	1,874,423	1,431,411
Total Temporary Assistance for Needy Families			<u>1,874,423</u>	<u>1,431,411</u>
Total U.S. Department of Health and Human Services			<u>1,874,423</u>	<u>1,431,411</u>
Total Federal Financial Assistance			<u>\$ 6,857,036</u>	<u>\$ 6,358,891</u>

(A) This schedule was prepared on the cash basis of accounting.

(B) Included as part of "Special Education Grant Cluster" in determining major programs.

(C) OAKS did not assign pass-through numbers for fiscal year 2008.

(D) The fund for the Improvement of Education is a direct award.



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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Governing Board
Educational Service Center of Franklin County
2080 Citygate Drive
Columbus, OH 43219

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Franklin County, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise the Educational Service Center of Franklin County's basic financial statements and have issued our report thereon dated January 30, 2009. As disclosed in Note 3.B., the Center reported a prior period restatement due to fund reclassifications at July 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center of Franklin County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Educational Service Center of Franklin County's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Educational Service Center of Franklin County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Educational Service Center of Franklin County's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Educational Service Center of Franklin County's financial statements that is more than inconsequential will not be prevented or detected by the Educational Service Center of Franklin County's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as 2008-ESCFC-001 and 2008-ESCFC-002 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Educational Service Center of Franklin County's internal control.

Governing Board
Educational Service Center of Franklin County

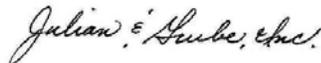
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

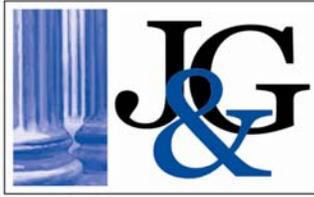
As part of obtaining reasonable assurance about whether the Educational Service Center of Franklin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which 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 or other matters that are required to be reported under *Government Auditing Standards*.

The Educational Service Center of Franklin County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Educational Service Center of Franklin County's responses and, accordingly, we express no opinion on them.

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



Julian & Grube, Inc.
January 30, 2009



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**Report on Compliance With Requirements Applicable to Its
Major Programs and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Governing Board
Educational Service Center of Franklin County
2080 Citygate Drive
Columbus, OH 43219

Compliance

We have audited the compliance of the Educational Service Center of Franklin County, Franklin County, Ohio, 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 fiscal year ended June 30, 2008. The Educational Service Center of Franklin County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses. 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 of Franklin County's management. Our responsibility is to express an opinion on the Educational Service Center of Franklin County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Educational Service Center of Franklin County'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 of Franklin County's compliance with those requirements.

In our opinion, the Educational Service Center of Franklin County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008.

Internal Control Over Compliance

The management of the Educational Service Center of Franklin County 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 of Franklin County's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Center of Franklin County's internal control over compliance.

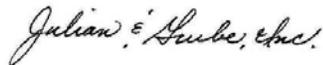
Governing Board
Educational Service Center of Franklin County

A control deficiency in the Educational Service Center of Franklin County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Educational Service Center of Franklin County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Educational Service Center of Franklin County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Educational Service Center of Franklin County's internal control.

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

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



Julian & Grube, Inc.
January 30, 2009

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Fund for the Improvement of Education (CFDA #84.215); and Temporary Assistance for Needy Families (CFDA #93.558)
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2008-ESCFC-001

Significant Deficiency

The Center's audited financial report was required to be filed by December 31, 2008.

The Center's audited financial report was completed approximately one month subsequent to the due date. While the GAAP report was filed timely, the audit was submitted early in February 2009.

The lack of a timely audit report may inhibit the Center's users of the financials and management in obtaining information required to make some financial decisions.

We recommend the Center's management consider requesting their GAAP report be completed prior to the deadline in order to help provide management with adequate time to review in detail the statements and modify if necessary. We also recommend the Center consider changing its available period from sixty to thirty days if that better facilitates their activity flow of information.

Client's Response: The delay in timely filing of the financial report is due primarily to three contributing factors: (1) change in Treasurer during the fiscal year; (2) significant evaluation and reclassification of funds to be reported on the Center's financial statements and federal awards schedule; (3) significant Center's management time devoted to a merger with Delaware-Union Education Service Center effective January 1, 2009. The Center does not anticipate a delay in filing fiscal 2009 audit report.

Finding Number	2008-ESCFC-002
----------------	----------------

Significant Deficiency

In May of 2006, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard became effective for audits of financial statements for periods ending on or after December 15, 2006.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 112 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control. One such control deficiency is audit adjustments.

**EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2008-ESCFC-002 - (Continued)

The following audit adjustments were necessary to properly present the financial statements:

Opinion Unit	Increase/ (Decrease)	Account	Amount
General	Increase	Intergovernmental Receivable	\$ 346,392
	Increase	Customer Service Revenue	304,432
	Increase	Deferred Revenue	41,960
Title VI-B	Increase	Intergovernmental Receivable	307,839
	Increase	Deferred Revenue	307,839
Aggregate Remaining	Increase	Intergovernmental Receivable	353,641
	Increase	Deferred Revenue	133,919
	Increase	Intergovernmental State Revenue	195,537
	Increase	Intergovernmental Federal Revenue	24,185
	Increase	Accounts Receivable	52,816
	Increase	Customer Service Revenue	52,816
	Decrease	Claims Payable	664,724

The presentation of materially correct financial statements and the related footnotes is the responsibility of management. This responsibility remains intact even if management decides to outsource this function for efficiency purposes or any other reason.

In either case, it is important that control procedures are developed related to financial reporting that enable management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes. In addition, management should not rely on its auditor to perform this control procedure as auditors must remain independent.

We recommend the Center consider implementing additional control procedures or modifying current control procedures related to financial reporting that enables management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes.

Client Response: The Center did conduct a more thorough review of its GAAP report, however due to time constraints regarding completion of the audit and additional time constraints placed on management due to other Center responsibilities (ie. the merger) the above adjustments were not able to be incorporated in a revised GAAP report and presented to the auditors. For fiscal 2009, the Center anticipates obtaining their GAAP report early in November enabling the Center's management to perform a more detailed thorough review of the GAAP report prior to submitting to Local Government Services and its auditors.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER OF FRANKLIN COUNTY
FRANKLIN 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
MAY 7, 2009

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2009***

ALAN HUTCHINSON, TREASURER



Mary Taylor, CPA
Auditor of State

Governing Board
Educational Service Center of Central Ohio
2080 Citygate Drive
Columbus, Ohio 43219

We have reviewed the *Independent Auditor's Report* of the Educational Service Center of Central Ohio, Franklin County, prepared by Julian & Grube, Inc., for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Educational Service Center of Central Ohio is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 4, 2010

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EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Governing Board
Educational Service Center of Central Ohio
2080 Citygate Drive
Columbus, OH 43219

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Central Ohio, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2009, which collectively comprise the Educational Service Center of Central Ohio's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center of Central Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Central Ohio, Franklin County, Ohio, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2009, on our consideration of the Educational Service Center of Central Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditor's Report
Educational Service Center of Central Ohio
Page Two

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



Julian & Grube, Inc.
December 28, 2009

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

The management's discussion and analysis of the Educational Service Center of Central Ohio's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2009 are as follows:

- On January 1, 2009 the Educational Service Center of Franklin County and the Delaware-Union Educational Service Center merged to form the Educational Service Center of Central Ohio. The transfer of fund balance and net assets of the Delaware-Union Educational Service Center at December 31, 2008 has been reported as a special item in the Center's statement of revenues, expenditures and changes in fund balances and in the statement of activities. In total, net assets of governmental activities increased \$4,923,402 which represents a 34.39% increase from 2008. Of this increase, \$1,196,679 was a special item as a result of the merger.
- General revenues accounted for \$5,109,349 in revenue or 8.71% of all revenues. The special item from the merger accounted for \$1,196,679 in revenue or 2.04%. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$52,372,249 or 89.25% of total revenues of \$58,678,277.
- The Center had \$53,754,875 in expenses related to governmental activities; \$52,372,249 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) and the special item revenue were adequate to provide for these programs.
- The Center's major governmental funds include the general fund, the Title VI-B special revenue fund and the miscellaneous federal grants special revenue fund. The general fund had \$48,242,516 in revenues, other financing sources and the special item from the merger, and \$41,758,498 in expenditures. During fiscal year 2009, the general fund's fund balance increased \$6,484,018 from \$8,137,284 to \$14,621,302.
- The Title VI-B special revenue fund had \$4,254,880 in revenues and \$4,565,373 in expenditures. During fiscal year 2009, its fund balance decreased \$310,493 from \$578,387 to \$267,894.
- The miscellaneous federal grants special revenue fund had \$1,493,808 in revenues and \$2,102,842 in expenditures. During fiscal year 2009, its fund balance decreased \$609,034 from a balance of \$598,436 to a deficit of \$10,598.

Using these Basic Financial Statements (BFS)

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

The *statement of net assets* and *statement of activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other nonmajor funds presented in total in one column. The Center reports the general fund, Title VI-B fund and miscellaneous federal grants fund as major funds.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2009?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include increased or decreased services desired by school districts, State budget cuts, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the Center's programs and services, including instruction, support services, and other operations.

The Center's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 9. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary Fund

The District maintains only one type of proprietary fund. The internal service fund is an accounting device used to accumulate and allocate costs internally among the District's various functions. The District has one internal service fund that accounts for a self-insurance program which provides health and dental benefits to. The basic proprietary fund financial statements can be found on pages 19-21 of this report.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

Reporting the Center's Fiduciary Responsibilities

The Center maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the Center's fiduciary activities are reported in a separate statement of fiduciary net assets on page 22. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-48 of this report.

The Center as a Whole

The statement of net assets provides the perspective of the Center as a whole.

On January 1, 2009 the Educational Service Center of Franklin County and the Delaware-Union Educational Service Center merged to form the Educational Service Center of Central Ohio. The table below provides a summary of the Center's net assets for 2009 and 2008.

	Net Assets	
	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<u>Assets</u>		
Current and other assets	\$ 24,474,178	\$ 17,798,819
Capital assets	<u>5,836,529</u>	<u>5,595,515</u>
Total assets	<u>30,310,707</u>	<u>23,394,334</u>
<u>Liabilities</u>		
Current liabilities	5,858,051	4,264,663
Long-term liabilities	<u>5,214,005</u>	<u>4,814,422</u>
Total liabilities	<u>11,072,056</u>	<u>9,079,085</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,523,663	2,053,105
Restricted	2,588,889	3,551,105
Unrestricted	<u>14,126,099</u>	<u>8,711,039</u>
Total net assets	<u>\$ 19,238,651</u>	<u>\$ 14,315,249</u>

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

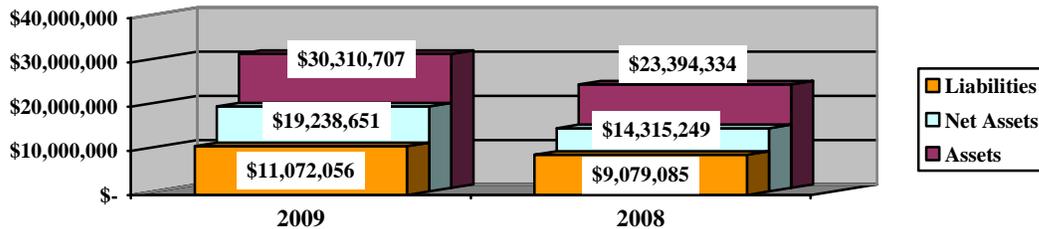
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the Center's assets exceeded liabilities by \$19,238,651. Of this total, \$14,126,099 is unrestricted in use. The significant increase in assets, liabilities, and net assets is due to the merger of the Educational Service Center of Franklin County and the Delaware-Union Educational Service Center, along with current year operations during fiscal year 2009.

At year-end, capital assets represented 19.26% of total assets. Capital assets include land, buildings, furniture and equipment and vehicles. Capital assets, net of related debt at June 30, 2009, were \$2,523,663. These capital assets are used to provide the Center's services and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net assets, \$2,588,889, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$14,126,099 may be used to meet the Center's ongoing obligations to the customers.

Governmental Activities



The table below shows the change in net assets for fiscal year 2009 and 2008. The transfer of net assets of the Delaware-Union Educational Service Center at December 31, 2008 has been reported as a special item in the Center's statement of activities.

Change in Net Assets

	Governmental Activities 2009	Governmental Activities 2008
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 41,730,856	\$ 29,614,846
Operating grants and contributions	10,641,393	10,194,579
General revenues:		
Grants and entitlements	4,560,256	3,632,859
Investment earnings	183,001	390,122
Other	<u>366,092</u>	<u>131,518</u>
Total revenues	\$ <u>57,481,598</u>	\$ <u>43,963,924</u>

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Change in Net Assets

	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 493,580	\$ 399,725
Special	14,630,501	12,147,515
Vocational	507,440	429,099
Support services:		
Pupil	2,791,348	665,771
Instructional staff	19,056,720	16,593,124
Board of education	81,161	158,852
Administration	10,813,723	8,887,008
Fiscal	2,469,813	1,655,167
Business	437,217	260,984
Operations and maintenance	656,126	646,962
Pupil transportation	36,919	29,230
Central	1,592,366	884,267
Operation of non-instructional services	580	-
Extracurricular	28,535	320
Interest and fiscal charges	<u>158,846</u>	<u>169,011</u>
Total expenses	<u>53,754,875</u>	<u>42,927,035</u>
Special item:		
Delaware-Union ESC net assets upon merger	<u>1,196,679</u>	<u>-</u>
Change in net assets	4,923,402	1,036,889
Net assets at beginning of year	<u>14,315,249</u>	<u>13,278,360</u>
Net assets at end of year	<u>\$ 19,238,651</u>	<u>\$ 14,315,249</u>

Governmental Activities

Net assets of the Center's governmental activities increased \$4,923,402 during fiscal year 2009. Of this increase, \$1,196,679 was a special item as a result of the merger. Total governmental expenses of \$53,754,875 were offset by program revenues of \$52,372,249 and general revenues of \$5,109,349. Program revenues supported 97.43% of the total governmental expenses.

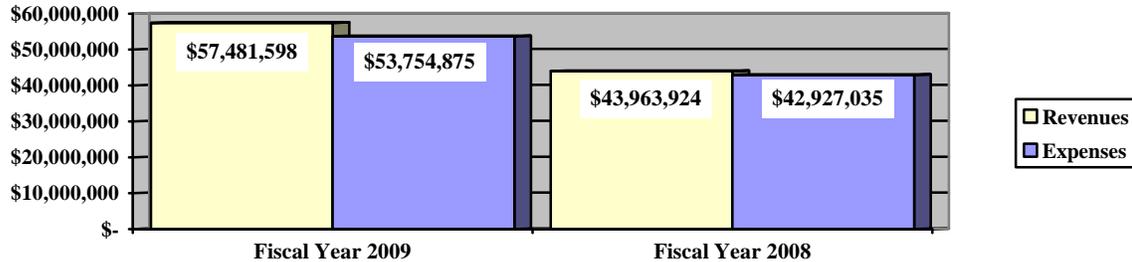
The primary sources of revenue for governmental activities are derived from tuition and contracted fees for services provided to other entities. This revenue source represents 71.12% of total governmental revenue.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2009 and 2008.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted state grants and entitlements, and other general revenues not restricted to a specific program.

Governmental Activities

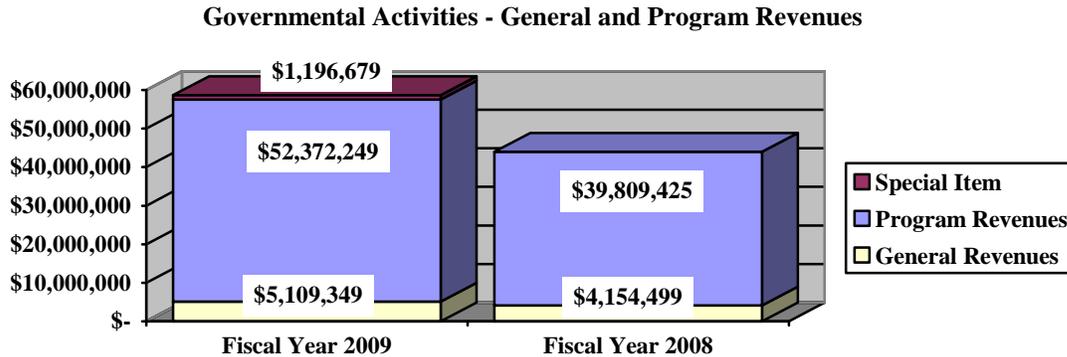
	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>
Program expenses				
Instruction:				
Regular	\$ 493,580	\$ 373,698	\$ 399,725	\$ 6,776
Special	14,630,501	(286,782)	12,147,515	590,334
Vocational	507,440	4,124	429,099	429,099
Support services:				
Pupil	2,791,348	66,347	665,771	460,630
Instructional staff	19,056,720	376,140	16,593,124	589,798
Board of education	81,161	381	158,852	158,852
Administration	10,813,723	641,904	8,887,008	80,885
Fiscal	2,469,813	(89,743)	1,655,167	28,651
Business	437,217	4,824	260,984	14,823
Operations and maintenance	656,126	80,871	646,962	353,331
Pupil transportation	36,919	36,919	29,230	29,230
Central	1,592,366	(14,018)	884,267	205,870
Operation of non-instructional services	580	580	-	-
Extracurricular	28,535	28,535	320	320
Interest and fiscal charges	<u>158,846</u>	<u>158,846</u>	<u>169,011</u>	<u>169,011</u>
Total expenses	<u>\$ 53,754,875</u>	<u>\$ 1,382,626</u>	<u>\$ 42,927,035</u>	<u>\$ 3,117,610</u>

For all governmental activities, program revenue support is 97.43% at June 30, 2009 and 92.74% at June 30, 2008. The primary support of the Center is contracted fees for services provided to other districts.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

The graph below presents the Center's governmental activities revenue for fiscal year 2009 and 2008.



The Center's Funds

The Center's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$15,133,266, which is higher than last year's total of \$11,137,476. The transfer of fund balance of the Delaware-Union Educational Service Center at December 31, 2008 has been reported as a special item in the Center's statement of revenues, expenditures and changes in fund balances. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2009 and 2008.

	Fund Balance (Deficit) <u>June 30, 2009</u>	Fund Balance <u>June 30, 2008</u>	Increase (Decrease)
General	\$ 14,621,302	\$ 8,137,284	\$ 6,484,018
Title VI-B	267,894	578,387	(310,493)
Miscellaneous Federal Grants	(10,598)	598,436	(609,034)
Other Governmental	<u>254,668</u>	<u>1,823,369</u>	<u>(1,568,701)</u>
Total	<u>\$ 15,133,266</u>	<u>\$ 11,137,476</u>	<u>\$ 3,995,790</u>

General Fund

The Center's general fund balance increased in fiscal year 2009 by \$6,484,018. Of this increase, \$1,649,918 was a special item as a result of the merger. The increase in fund balance can be attributed to an increase in tuition and customer services revenue. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

	<u>2009</u> <u>Amount</u>	<u>2008</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Tuition	\$ 19,696,381	\$ 14,750,587	33.53 %
Customer services	21,260,219	10,980,183	93.62 %
Earnings on investments	161,133	379,679	(57.56) %
Intergovernmental	4,560,256	3,632,859	25.53 %
Other revenues	<u>913,858</u>	<u>131,518</u>	594.85 %
Total	<u>\$ 46,591,847</u>	<u>\$ 29,874,826</u>	55.96 %
<u>Expenditures</u>			
Instruction	\$ 13,861,459	\$ 11,111,220	24.75 %
Support services	27,546,526	17,759,792	55.11 %
Operation of non-instructional services	542	-	100.00 %
Extracurricular activities	28,533	-	100.00 %
Facilities acquisition and construction	-	66,170	(100.00) %
Debt service	<u>321,438</u>	<u>322,169</u>	(0.23) %
Total	<u>\$ 41,758,498</u>	<u>\$ 29,259,351</u>	42.72 %

Revenues increased due to the merger with the Delaware-Union ESC. Which means the Center now has more local and city school districts to serve. Earnings on investments decreased as a result of lower interest rates. The increase in instruction and support services is due to the merger and overall increasing wage and benefits expenditures. The decrease in facilities acquisition and construction is due to the Center entering into a lease purchase agreement in 2008. Debt service expenditures decreased as the Center began making lease payments on the new office building in fiscal year 2008.

Title VI-B Fund

During fiscal year 2009, the Title VI-B fund balance decreased \$310,493. The decrease in fund balance can be attributed to an increase of instructional staff expenditures during the year and a decrease in grant revenues received by fiscal year-end that in 2007 were reported as deferred revenue which increased 2008 grant revenues. Revenues totaled \$4,254,880 and expenditures totaled \$4,565,373 during fiscal year 2009.

Miscellaneous Federal Grants Fund

During fiscal year 2009, the miscellaneous federal grants fund balance decreased \$609,034. The decrease in fund balance can be attributed to a decrease in grant revenues received by fiscal year-end. Deferred grant revenues for 2009 are \$1,496,920. Revenues totaled \$1,493,808 and expenditures totaled \$2,102,842 during fiscal year 2009.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2009, the Center had \$5,836,529 invested in land, buildings, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2009 balances compared to 2008:

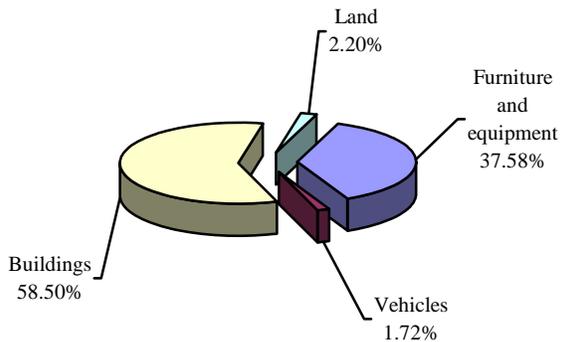
**Capital Assets at June 30
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Land	\$ 128,300	\$ 128,300
Buildings	3,414,317	3,243,657
Furniture and equipment	2,193,406	2,100,485
Vehicles	<u>100,506</u>	<u>123,073</u>
Total	<u>\$ 5,836,529</u>	<u>\$ 5,595,515</u>

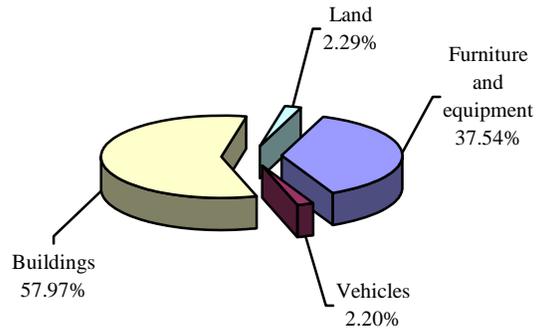
Total additions to capital assets for 2009 were \$802,193 and \$111,683 (net of accumulated depreciation) in assets from the Delaware-Union ESC merger. A total of \$647,141 in depreciation expense was recognized and disposals were \$25,721 (net of accumulated depreciation) for fiscal year 2009.

The graphs below present the Center's capital assets for fiscal years 2009 and 2008.

**Capital Assets - Governmental Activities
2009**



**Capital Assets - Governmental Activities
2008**



See Note 7 to the basic financial statements for additional information on the Center's capital assets.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Debt Administration

At June 30, 2009 the Center had \$3,312,866 in a lease purchase and capital lease agreement outstanding. Of this total, \$241,905 is due within one year and \$3,070,961 is due within greater than one year. The following table summarizes the debt outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2009	Governmental Activities 2008
Lease Purchase Agreement	\$ 3,153,000	\$ 3,330,000
Capital lease obligations	<u>159,866</u>	<u>212,410</u>
Total	<u>\$ 3,312,866</u>	<u>\$ 3,542,410</u>

See Note 9 to the basic financial statements for detail on the Center's debt administration.

Current Financial Related Activities

The Center is in a stable financial position at the end of June 2009. The Governing Board has a permanent improvement fund to cover possible future office space needs or payment of office building rental, and future technology equipment needs. Legislative requirements for the development of Ohio Educational Regional Service System will have an impact on educational service centers in the future. At this time, it is impossible to determine what effect this legislation will have on the Educational Service Center of Central Ohio.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. Questions regarding this report or requests for need additional financial information should be directed to Mr. Alan Hutchinson, Treasurer, Educational Service Center of Central Ohio, 2080 Citygate Dr., Columbus, Ohio 43219.

**BASIC
FINANCIAL STATEMENTS**

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 14,857,150
Cash with fiscal agent.	161,571
Receivables:	
Accounts	132,737
Intergovernmental	8,988,141
Accrued interest	35,097
Prepayments	198,684
Loans	100,798
Capital assets:	
Land	128,300
Depreciable capital assets, net	5,708,229
Capital assets, net.	5,836,529
 Total assets.	 30,310,707
Liabilities:	
Accounts payable.	540,191
Accrued wages and benefits	3,439,909
Intergovernmental payable	998,395
Claims payable	868,536
Accrued interest payable	11,020
Long-term liabilities:	
Due within one year.	914,324
Due in more than one year	4,299,681
 Total liabilities	 11,072,056
Net Assets:	
Invested in capital assets, net of related debt.	2,523,663
Restricted for:	
Capital projects	292,930
Locally funded programs	95,332
State funded programs	43,231
Federally funded programs	2,153,113
Student activities	190
Public school support.	4,093
Unrestricted.	14,126,099
 Total net assets	 \$ 19,238,651

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	<u>General</u>	<u>Title VI-B</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 13,267,884	\$ -	\$ -	\$ 543,106	\$ 13,810,990
Receivables:					
Accounts	132,737	-	-	-	132,737
Intergovernmental	4,606,428	2,072,548	1,947,511	361,654	8,988,141
Accrued interest	35,097	-	-	-	35,097
Interfund loans	4,889	-	-	-	4,889
Due from other funds	1,902,208	-	-	-	1,902,208
Prepayments	170,325	4,174	1,099	23,086	198,684
Loans	100,798	-	-	-	100,798
Total assets	<u>\$ 20,220,366</u>	<u>\$ 2,076,722</u>	<u>\$ 1,948,610</u>	<u>\$ 927,846</u>	<u>\$ 25,173,544</u>
Liabilities:					
Accounts payable	\$ 186,038	\$ 29,488	\$ 88,990	\$ 235,675	\$ 540,191
Accrued wages and benefits	3,407,536	11,422	14,776	6,175	3,439,909
Compensated absences payable	46,217	-	-	-	46,217
Intergovernmental payable.	901,966	22,796	32,771	40,862	998,395
Interfund loan payable	-	4,889	-	-	4,889
Due to other funds	-	1,297,754	325,751	278,703	1,902,208
Deferred revenue.	1,057,307	442,479	1,496,920	111,763	3,108,469
Total liabilities	<u>5,599,064</u>	<u>1,808,828</u>	<u>1,959,208</u>	<u>673,178</u>	<u>10,040,278</u>
Fund Balances:					
Reserved for encumbrances	1,525,766	326,832	239,260	537,117	2,628,975
Reserved for prepayments	170,325	4,174	1,099	23,086	198,684
Unreserved, undesignated (deficit), reported in:					
General fund	12,925,211	-	-	-	12,925,211
Special revenue funds.	-	(63,112)	(250,957)	(579,459)	(893,528)
Capital projects funds.	-	-	-	273,924	273,924
Total fund balances (deficit)	<u>14,621,302</u>	<u>267,894</u>	<u>(10,598)</u>	<u>254,668</u>	<u>15,133,266</u>
Total liabilities and fund balances	<u>\$ 20,220,366</u>	<u>\$ 2,076,722</u>	<u>\$ 1,948,610</u>	<u>\$ 927,846</u>	<u>\$ 25,173,544</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 493,580	\$ 27,693	\$ 92,189	\$ (373,698)
Special	14,630,501	13,228,838	1,688,445	286,782
Vocational	507,440	502,813	503	(4,124)
Support services:				
Pupil.	2,791,348	2,496,538	228,463	(66,347)
Instructional staff.	19,056,720	15,354,073	3,326,507	(376,140)
Board of education	81,161	80,780	-	(381)
Administration.	10,813,723	6,721,326	3,450,493	(641,904)
Fiscal.	2,469,813	1,475,982	1,083,574	89,743
Business.	437,217	432,393	-	(4,824)
Operations and maintenance	656,126	372,289	202,966	(80,871)
Pupil transportation	36,919	-	-	(36,919)
Central.	1,592,366	1,038,131	568,253	14,018
Operation of non-instructional services	580	-	-	(580)
Extracurricular activities	28,535	-	-	(28,535)
Interest and fiscal charges	158,846	-	-	(158,846)
Total governmental activities	<u>\$ 53,754,875</u>	<u>\$ 41,730,856</u>	<u>\$ 10,641,393</u>	<u>(1,382,626)</u>
General Revenues:				
Grants and entitlements not restricted to specific programs				
			4,560,256	
			183,001	
			366,092	
			5,109,349	
Special item:				
Transfer of Delaware-Union ESC net assets upon merger				
			1,196,679	
			6,306,028	
			4,923,402	
			14,315,249	
			\$ 19,238,651	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Total governmental fund balances		\$ 15,133,266
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,836,529
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Tuition and customer services receivable	\$ 1,029,073	
Intergovernmental receivable	2,051,162	
Accrued interest receivable	<u>28,234</u>	
Total		3,108,469
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.		339,195
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(11,020)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,854,922)	
Capital lease obligation	(159,866)	
Lease purchase agreement	<u>(3,153,000)</u>	
Total		<u>(5,167,788)</u>
Net assets of governmental activities		<u><u>\$ 19,238,651</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General	Title VI-B	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Tuition	\$ 19,696,381	\$ -	\$ -	\$ -	\$ 19,696,381
Customer services	21,260,219	-	-	857,150	22,117,369
Earnings on investments	161,133	-	-	-	161,133
Rental income	145,704	-	-	-	145,704
Extacurricular	-	-	-	1,501	1,501
Contributions and donations	-	-	252,602	106,700	359,302
Other local revenues	220,388	-	-	2,600	222,988
Other revenue	547,766	-	-	254,285	802,051
Intergovernmental - State	4,560,256	-	112,873	2,777,973	7,451,102
Intergovernmental - Federal	-	4,254,880	1,128,333	57,191	5,440,404
Total revenue	<u>46,591,847</u>	<u>4,254,880</u>	<u>1,493,808</u>	<u>4,057,400</u>	<u>56,397,935</u>
Expenditures:					
Current:					
Instruction:					
Regular	312,386	-	-	183,586	495,972
Special	13,044,337	-	959,316	573,124	14,576,777
Vocational	504,736	-	-	891	505,627
Support services:					
Pupil	2,501,161	-	146,228	47,093	2,694,482
Instructional staff	15,267,361	1,767,827	264,094	1,529,254	18,828,536
Board of education	81,161	-	-	-	81,161
Administration	6,362,179	1,876,245	245,774	2,617,312	11,101,510
Fiscal	1,452,215	231,574	487,430	294,402	2,465,621
Business	434,430	-	-	-	434,430
Operations and maintenance	372,752	238,110	-	1,500	612,362
Pupil transportation	33,469	-	-	-	33,469
Central	1,041,798	383,978	-	11,074	1,436,850
Operation of non-instructional services	542	-	-	-	542
Extracurricular activities	28,533	-	-	-	28,533
Facilities acquisition and construction	-	-	-	383,773	383,773
Debt service:					
Principal retirement	177,000	52,544	-	-	229,544
Interest and fiscal charges	144,438	15,095	-	-	159,533
Total expenditures	<u>41,758,498</u>	<u>4,565,373</u>	<u>2,102,842</u>	<u>5,642,009</u>	<u>54,068,722</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,833,349</u>	<u>(310,493)</u>	<u>(609,034)</u>	<u>(1,584,609)</u>	<u>2,329,213</u>
Other financing sources (uses):					
Transfers in	751	-	-	-	751
Transfers (out)	-	-	-	(751)	(751)
Total other financing sources (uses)	<u>751</u>	<u>-</u>	<u>-</u>	<u>(751)</u>	<u>-</u>
Special item:					
Transfer of Delaware-Union ESC fund balance upon merger	1,649,918	-	-	16,659	1,666,577
Net change in fund balances	6,484,018	(310,493)	(609,034)	(1,568,701)	3,995,790
Fund balances at beginning of year	<u>8,137,284</u>	<u>578,387</u>	<u>598,436</u>	<u>1,823,369</u>	<u>11,137,476</u>
Fund balances (deficit) at end of year	<u>\$ 14,621,302</u>	<u>\$ 267,894</u>	<u>\$ (10,598)</u>	<u>\$ 254,668</u>	<u>\$ 15,133,266</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds \$ 3,995,790

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

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

Capital asset additions	\$	802,193	
Current year depreciation		(647,141)	
Total			155,052

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (25,721)

The transfer of capital assets, net of accumulated depreciation, and long-term liabilities from the Delaware-Union ESC to the ESC of Central Ohio, in accordance with the merger agreement, did not have an effect on the governmental fund statements; however, they did have an effect on the statement of activities.

Capital assets, net of accumulated depreciation		111,683	
Long-term liabilities		(581,581)	
Total			(469,898)

Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 229,544

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

Tuition and customer services		(86,995)	
Intergovernmental revenue		1,148,790	
Earnings on investments		17,771	
Total			1,079,566

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net expense of the internal service fund is allocated among the governmental activities. (23,111)

In the statement of activities, interest is accrued on the lease purchase agreement, whereas in governmental funds, an interest expenditure is reported when due. 687

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (18,507)

Change in net assets of governmental activities \$ 4,923,402

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

	Governmental Activities - Internal Service Fund <hr/>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 1,046,160
Cash with fiscal agent.	<hr/> 161,571
Total assets	<hr/> 1,207,731
Liabilities:	
Claims payable	<hr/> 868,536
Total liabilities	<hr/> 868,536
Net assets:	
Unrestricted	<hr/> 339,195
Total net assets	<hr/> <u>\$ 339,195</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 6,117,129
Total operating revenues	<u>6,117,129</u>
Operating expenses:	
Claims.	<u>6,144,337</u>
Total operating expenses	<u>6,144,337</u>
Operating loss	<u>(27,208)</u>
Nonoperating revenues:	
Interest revenue.	<u>4,097</u>
Total nonoperating revenues	<u>4,097</u>
Change in net assets	(23,111)
Net assets at beginning of year	<u>362,306</u>
Net assets at end of year.	<u><u>\$ 339,195</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services.	\$ 6,117,129
Cash payments for claims	(5,720,042)
	397,087
Net cash provided by operating activities	397,087
Cash flows from investing activities:	
Interest received	4,097
	4,097
Net cash provided by investing activities	4,097
Net increase in cash and cash equivalents	401,184
Cash and cash equivalents at beginning of year . . .	806,547
Cash and cash equivalents at end of year.	\$ 1,207,731
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss.	\$ (27,208)
Changes in assets and liabilities:	
Increase in claims payable.	424,295
	424,295
Net cash provided by operating activities	\$ 397,087

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2009

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 1,475,109
Receivables:	
Intergovernmental	215,216
Prepayments	8,300
 Total assets.	 \$ 1,698,625
Liabilities:	
Accounts payable.	\$ 187,087
Accrued wages and benefits	120,217
Compensated absences payable	10,117
Intergovernmental payable	1,280,406
Loans payable.	100,798
 Total liabilities	 \$ 1,698,625

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 1 - DESCRIPTION OF THE CENTER

The Educational Service Center of Central Ohio (the "Center") (formerly, the Educational Service Center of Franklin County, or the "ESCFC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio.

Effective January 1, 2009, in conjunction with the merger with the Delaware-Union Educational Service Center (the "DUESC"), the Center operates under a locally-elected seven member Governing Board form of government and provides educational services as mandated by State or federal agencies. The Governing Board controls the Center's staff that provides services to over 116,431 students and other community members in Delaware, Franklin, and Union Counties.

The Center provides services in the area of special education classes, supervision, administration, fiscal and other needed services to eight local school districts in Delaware, Franklin, and Union Counties and also has city/county agreements with ten city school districts. In addition, the Center provides contracted services to eleven school districts and fiscal services for various state and local agencies such as the Ohio Department of Education projects and the Catholic Diocese.

The Center serves local school districts: Big Walnut Local School District, Buckeye Valley Local School District, Canal Winchester Local School District, Fairbanks Local School District, Groveport Madison Local School District, Hamilton Local School District, New Albany/Plain Local School District, Olentangy Local School District, and city school districts as provided by S.B. 140, O.R.C. Section 3313.483. Other school districts outside of Delaware, Franklin, and Union Counties are served on an individual contract basis for various services.

The Center is located in Columbus, Ohio and is staffed by 135 administrators, 391 certified and 630 non-certified personnel.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations and student related activities of the Center.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's Governing Board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise have access to organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of this criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government).

The following organizations are described due to their relationship with the Center.

The Center is the fiscal agent for the Franklin County Family and Children First Council (the "Council"). The Center is responsible for receiving and disbursing funds at the direction of the Council. This entity is legally separate from the Center. The Center is the fiscal agent and custodian for the Council, but is not accountable; therefore, the operations of the Council have been included as an agency fund in the Center's basic financial statements. The funds invested on behalf of the Council have been included in the basic financial statements as "equity in pooled cash and cash equivalents".

JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council (the "MEC") - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts and educational service centers in Franklin County and surrounding areas by cooperative action membership. The Governing Board consists of a representative from each of the Franklin County School districts and the Center. School districts and educational service centers outside of Franklin County are associate members and each county selects a single district or center to represent them on the Governing Board. MEC is its own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the Center.

Delaware Area Career Center

The Delaware Area Career Center (the "Career Center") is a distinct political subdivision of the State of Ohio. The Career Center is operated under the direction of a Board consisting of two representatives from each of the participating school district's elected board, and one representative from the Center. The Career Center possesses its own budgeting and taxing authority. Financial information is available from Christopher Bell, Treasurer, Delaware Area Career Center, at 4505 Columbus Pike, Delaware, Ohio 43015.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Tri-Rivers Career Center

The Tri-Rivers Career Center (the "Career Center") is a distinct political subdivision of the State of Ohio. The Career Center is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, and one representative from the Center. The Career Center possesses its own budgeting and taxing authority. Financial information is available from Terril Martin, Treasurer, Tri-Rivers Career Center, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

Educational Service Center Council of Governments (the "ESCCOG")

The ESCCOG is a legally separate body politic and corporate served by an appointed three-member Board of Directors and meets the definition of regional council of governments under Chapter 167 of the Ohio Revised Code. Financial information is available from Alan Hutchinson, Treasurer, Educational Service Center Council of Governments, 2080 Citygate Drive, Columbus, Ohio 43219.

B. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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

The following are the Center's major governmental funds:

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

Title VI-B fund - The Title VI-B is used to account for Federal monies which assist States in the identification of handicapped children, and provision of full educational opportunities to handicapped children at the preschool, elementary and secondary levels.

Miscellaneous federal grants fund - The miscellaneous federal grants fund is used to account for various monies received through state agencies from the federal government or directly from the federal government which are not classified elsewhere.

The other governmental funds of the Center account for grants and other resources whose use is restricted to a particular purpose and for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PROPRIETARY FUNDS

Proprietary funds are used to account for the Center's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is a description of the Center's proprietary fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Center, or to other governments, on a cost-reimbursement basis. The internal service fund of the Center accounts for a self-insurance program which provides medical benefits to employees.

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 Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency funds account for various resources held for other organizations and individuals.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the Center that are governmental and those that are considered business-type.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Center and for each function or program of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Center. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Center.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fund Financial Statements - Fund financial statements report detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Center finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the Center's internal service fund is charges for services. Operating expenses for internal service funds include charges for services and claims expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

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. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a 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 to be both measurable and available at fiscal year-end: tuition, grants, and contract services.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. 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 have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

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

In fiscal year 2004, the Center requirement to file budgetary information with the Ohio Department of Education was eliminated and the Center has elected to not present budgetary schedules as supplementary information for fiscal year 2009. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated resources. The Center's Board adopts an annual appropriation resolution, which is the Board's, authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Cash and Investments

To improve cash management, cash received by the Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2009, investments were limited to investments in negotiable and non-negotiable certificates of deposit (CD's) and the State Treasury Asset Reserve (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The Center has invested funds in STAR Ohio during fiscal year 2009. 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 shares price which is the price the investment could be sold for on June 30, 2009.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or 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 2009 amounted to \$161,133, which includes \$29,806 assigned from other Center funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Center's investment account at fiscal year-end is provided in Note 4.

G. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$1,000. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All reported capital assets except land 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Building	40 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 15 years

H. Compensated Absences

The Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments.

All employees with eight or more years of service were included in the calculation of the long-term compensated absences accrual amount. Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2009 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available 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 noncurrent portion of the liability is not reported.

I. Accrued Liabilities and Long-Term Obligations

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

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Lease purchase agreements and capital leases are recognized as a liability on the fund financial statements when due.

J. Fund Balance Reserves

The Center reserves those 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 encumbrances and prepayments.

K. Net Assets

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

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

L. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

M. Estimates

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Interfund Activity

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

P. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivables/payables." On fund financial statements, receivables and payables to cover deficit cash balances are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column on the statement of net assets.

Loans between governmental funds and agency funds are reported as "loans receivable/payable" on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence.

On January 1, 2009 the ESCFC and the DUESC merged to form the Educational Service Center of Central Ohio. The transfer of fund balance and net assets of the DUESC at December 31, 2008 upon the merger with the ESCFC has been reported as a special item in the Center's statement of revenues, expenditures and changes in fund balances and in the statement of activities.

A variance in the amount of \$16,800 between the special item upon the merger reported by the DUESC at December 31, 2008, and the special item reported by the Center during fiscal year 2009 is a result of a fund classified by the Center as an agency fund that was reported by the DUESC as a special revenue fund. The following schedule reconciles the special items as reported by the DUESC at December 31, 2008 and the Center during fiscal year 2009:

	Governmental Funds - Modified <u>Accrual Basis</u>	Governmental Activities <u>Accrual Basis</u>
Special item reported by DUESC at December 31, 2008	\$ 1,649,777	\$ 1,179,879
Fund (deficit) reclassification	<u>16,800</u>	<u>16,800</u>
Special item reported by ESC of Central Ohio	<u>\$ 1,666,577</u>	<u>\$ 1,196,679</u>

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2009, the Center has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the Center.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the Center.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the Center.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the Center.

B. Deficit Fund Balances

Fund balances at June 30, 2009 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major fund</u>	
Miscellaneous federal grants	\$ 10,598
<u>Nonmajor governmental funds</u>	
Miscellaneous state grants	225,050
Title III	11,645
Title I	458
Preschool for handicapped	14,417

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Governing 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the 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.

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 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the Center had \$750 in undeposited cash on hand which is included on the financial statements of the Center as part of "equity in pooled cash and cash equivalents."

B. Cash With Fiscal Agent

The Center is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2009, was \$161,571.

C. Deposits with Financial Institutions

At June 30, 2009, the carrying amount of all Center deposits was \$14,916,131. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2009, \$13,230,460 of the Center's bank balance of \$17,229,083 was exposed to custodial risk as discussed below, while \$3,998,623 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center. The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2009, the Center had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>19 to 24 months</u>
Negotiable CD's	\$ 893,000	\$ 297,000	\$ 98,000	\$ 498,000
STAR Ohio	522,378	522,378	-	-
	<u>\$ 1,415,378</u>	<u>\$ 819,378</u>	<u>\$ 98,000</u>	<u>\$ 498,000</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Center's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The Center's investment policy does not specifically address credit risk beyond requiring the Center to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Negotiable CD's	\$ 893,000	63.09
STAR Ohio	522,378	36.91
	<u>\$ 1,415,378</u>	<u>100.00</u>

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2009:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 14,916,131
Investments	1,415,378
Cash with fiscal agent	161,571
Cash on hand	<u>750</u>
 Total	 <u>\$ 16,493,830</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 15,018,721
Agency funds	<u>1,475,109</u>
 Total	 <u>\$ 16,493,830</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2009, as reported on the fund statements, consist of the following individual short-term interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Title VI-B	\$ 4,889

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

- B.** Interfund balances at June 30, 2009, as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Title VI-B	\$ 1,297,754
General fund	Miscellaneous federal grants	325,751
General fund	Nonmajor governmental funds	278,703

The primary purpose of the due to/from other funds is to cover negative cash at fiscal year-end. The interfund balances will be repaid once the anticipated revenues are received. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- C. Interfund transfers for the fiscal year ended June 30, 2009, consisted of the following, as reported on the fund financial statements:

<u>Transfers from nonmajor governmental funds to:</u>	<u>Amount</u>
General fund	\$ 751

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The purpose of the transfers to the general fund was for residual equity transfers to close out various grant funds.

All transfers made in fiscal year 2009 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- D. Loans between governmental funds and agency funds to cover negative cash at fiscal year end are reported as "loans receivable/payable" on the financial statements. The Center had the following loans outstanding at fiscal year end:

<u>Loan from</u>	<u>Loan to</u>	<u>Amount</u>
General	Agency	\$ 100,798

This loan is expected to be repaid in the subsequent year as resources become available in the agency fund.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2009 consisted of intergovernmental (billings to school districts for user charged services), accounts (charges for individual tuition on other services) and accrued interest. All receivables are considered collectible in full. A summary of the items of receivables reported on the statement of net assets follows:

Governmental activities:

Accounts	\$ 132,737
Intergovernmental	8,988,141
Accrued interest	35,097

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	<u>Balance</u> <u>06/30/08</u>	<u>Transfers</u> <u>from DUESC</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/09</u>
<i>Capital assets, not being depreciated:</i>					
Land	\$ 128,300	\$ -	\$ -	\$ -	\$ 128,300
Capital assets, not being depreciated	<u>128,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128,300</u>
<i>Capital assets, being depreciated:</i>					
Buildings	3,371,700	-	256,605	-	3,628,305
Furniture and equipment	4,592,733	311,552	545,588	(831,667)	4,618,206
Vehicles	<u>273,753</u>	<u>-</u>	<u>-</u>	<u>(17,041)</u>	<u>256,712</u>
Total capital assets, being depreciated	<u>8,238,186</u>	<u>311,552</u>	<u>802,193</u>	<u>(848,708)</u>	<u>8,503,223</u>
<i>Less: accumulated depreciation:</i>					
Buildings	(128,043)	-	(85,945)	-	(213,988)
Furniture and equipment	(2,492,248)	(199,869)	(540,333)	807,650	(2,424,800)
Vehicles	<u>(150,680)</u>	<u>-</u>	<u>(20,863)</u>	<u>15,337</u>	<u>(156,206)</u>
Total accumulated depreciation	<u>(2,770,971)</u>	<u>(199,869)</u>	<u>(647,141)</u>	<u>822,987</u>	<u>(2,794,994)</u>
Governmental activities capital assets, net	<u>\$ 5,595,515</u>	<u>\$ 111,683</u>	<u>\$ 155,052</u>	<u>\$ (25,721)</u>	<u>\$ 5,836,529</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Special	\$ 93,632
<u>Support services:</u>	
Instructional staff	85,910
Administration	207,313
Fiscal	2,198
Business	5,253
Operations and maintenance	75,639
Pupil transportation	3,450
Central	<u>173,746</u>
Accumulated depreciation	<u>\$ 647,141</u>

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 8 - LEASE OBLIGATIONS - LESSEE DISCLOSURE

A. Lease-Purchase Agreement

On December 21, 2006, the Center entered into a fifteen year \$3,500,000 lease-purchase agreement to purchase the office building located at 2080 Citygate Drive, Columbus, Ohio. The lease-purchase agreement is with the OASBO Expanded Asset Pool Financing Program with bonds issued through the Columbus Regional Airport Authority. At June 30, 2009, capital assets acquired by lease purchase have been capitalized under land and buildings in the amounts of \$128,300 and \$3,371,700, respectively. Accumulated depreciation on buildings as of June 30, 2009 was \$213,988 leaving a current book value of \$3,157,712. Lease-purchase payments have been reflected as debt service expenditures in the general fund. Principal and interest payments in fiscal year 2009 totaled \$177,000 and \$144,438, respectively.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2009.

Fiscal Year Ending June 30,	Total
2010	\$ 321,373
2011	320,951
2012	321,151
2013	320,949
2014	320,347
2015 - 2019	1,593,681
2020 - 2022	951,713
Total minimum lease payments	4,150,165
Less: amount representing interest	(997,165)
Present value of minimum lease payments	\$ 3,153,000

B. Capital Lease Agreement

During a prior year the Center entered into capitalized leases for copier equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$261,917. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2009 totaled \$52,544 paid by the Title VI-B fund.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 8 - LEASE OBLIGATIONS - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2009:

Fiscal Year <u>Ending June 30,</u>	<u>Amount</u>
2010	\$ 67,638
2011	67,638
2012	<u>43,146</u>
Total minimum lease payment	178,422
Less: amount representing interest	<u>(18,556)</u>
Present value of minimum lease payments	<u>\$ 159,866</u>

NOTE 9 - LONG-TERM OBLIGATIONS

The Center's long-term obligations at fiscal year end consist of the following:

	Balance Outstanding <u>06/30/08</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/09</u>	Amounts Due in <u>One Year</u>
Compensated absences	\$ 1,272,012	\$ 1,182,933	\$ (553,806)	\$ 1,901,139	\$ 672,419
Capital lease	212,410	-	(52,544)	159,866	56,905
Lease purchase agreement	<u>3,330,000</u>	<u>-</u>	<u>(177,000)</u>	<u>3,153,000</u>	<u>185,000</u>
Total long-term obligations	<u>\$ 4,814,422</u>	<u>\$ 1,182,933</u>	<u>\$ (783,350)</u>	<u>\$ 5,214,005</u>	<u>\$ 914,324</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid which is primarily the general fund and Title VI-B. See Note 8 for details on the lease purchase agreement and capital lease.

NOTE 10 - RISK MANAGEMENT

A. General Risk

The 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. The Center has addressed the various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$2,000,000 for each occurrence and \$4,000,000 in the aggregate. Fleet insurance is maintained in the amount of \$1,000,000 for each occurrence.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 10 - RISK MANAGEMENT - (Continued)

The Center maintains commercial property insurance on buildings and buildings contents in the amount of \$13,500,000 with supplemental coverage for computers and classroom equipment in the amount of \$1,900,000.

Other insurance includes hired non-owned auto coverage for employees using their vehicles for Center business.

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

B. Workers' Compensation Liability-Public Entity Risk Pool

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

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts and educational service centers is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP.

Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Health and Dental Insurance

For the former Employees of the ESCFC and all employees hired after January 1, by the Center, the Center has established a self-insurance fund for health and dental insurance. Claims are administered by a third party administrator, Polaris Benefit Administrators. The Center pays 80% of contributions and employees pay 20%. These amounts are deposited monthly by check from the general fund, special revenue funds, and other agency funds in an account held by the Center. Expenses for claims are recorded as other expenses when claims are approved and paid. For internal control, check registers are submitted to the Treasurer weekly for approval. A monthly check register is e-mailed to the Treasurer. Canceled checks are received by the Treasurer's office and fiscal staff reconciles the bank statements.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 10 - RISK MANAGEMENT - (Continued)

A summary of changes in self-insurance claims:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Balance</u> <u>June 30, 2008</u>
Claims liability at beginning of year	\$ 444,241	\$ 436,150
Incurred claims	6,144,337	6,041,684
Claims paid	<u>(5,720,042)</u>	<u>(6,033,593)</u>
Claims liability at end of year	<u>\$ 868,536</u>	<u>\$ 444,241</u>

The former DUESC employees participate in The Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust (CDMU), a public entity shared risk pool consisting of seven Districts and Madison Champaign County. The Trust is organized as a Voluntary Employee Benefit association under Section 501 (c) (9) of the Internal Revenue Code and provides medical, dental and life insurance benefits to the employees of the participants. The Trust is responsible for the management and operations of the program. Each participant's superintendent is appointed to the Administrative Committee which advises the Trustee, concerning aspects of the administration of the Trust. 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. Each participant decides which plans offered by the Administrative Committee will be extended to its employees. For employer and employees at June 30, 2009, single coverage is 90% Board paid and 10% employee paid, while family coverage is 72% Board paid and 28% employee paid. 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 the north Union Local District, 12920 State Route 739, Richwood, Ohio 43344.

NOTE 11 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from Center policy and State laws. Only administrative and support personnel who are under a full year contract are eligible for vacation time.

The Superintendent, Deputy Superintendent, Treasurer and Directors receive twenty days of vacation per year. Certified employees on an eleven month contract receive ten days per year. All other full time employees earn up to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to employees upon termination of employment.

Classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
1 - 9	10
10 - 19	15
20 - Beyond	20

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 11 - COMPENSATED ABSENCES - (Continued)

For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of thirty days for employees with less than eight years of service and a maximum of fifty days for employees with eight years or more of service, with the exception of the Superintendent and former Superintendent of DUESC who have no maximum.

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements 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. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$1,463,540, \$1,199,479 and \$1,188,161, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

B. State Teachers Retirement System of Ohio

Plan Description - The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 12 - PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or 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 DC Plan 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 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2009, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were \$2,243,845, \$1,640,667 and \$1,546,632, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$76,843 made by the Center and \$147,676 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2009, certain members of the Board of Education have elected Social Security. The Center's liability is 6.2 percent of wages paid.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated 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 obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each 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 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

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 Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009, 2008, and 2007 were \$865,118, \$727,298 and \$541,745, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$120,754, \$86,425 and \$80,795, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

B. State Teachers Retirement System of Ohio

Plan Description - The Center contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio law 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 Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$172,603, \$126,205 and \$113,370, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

NOTE 14 - STATE FUNDING

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

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the 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 school districts served by the Center through additional reductions in their resources provided through the State Foundation Program. The State Governing Board initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

NOTE 15 - OPERATING LEASES - LESSEE DISCLOSURE

- A. On May 21, 2007, the Center entered into a lease agreement on behalf of the Central Ohio Special Education Regional Resource Center with the Columbus City School District (the "Landlord") to rent space in the Glenmont Elementary School. The length of the lease shall be for a period of 60 months commencing September 1, 2007, and ending on August 31, 2012. Either party may terminate the lease with six months written notice provided the party seeking to terminate is not in default of the lease at the time notice is provided or at any time during the six month notice period.

The Center shall pay to the Landlord the annual base rent payable in monthly installments each in advance on the first day of each and every month during the term. The annual base rent shall be paid as follows:

<u>Lease Year</u>	<u>Annual Base Rent</u>	<u>Monthly Base Rent</u>
1	\$ 44,526	\$ 3,711
2	45,639	3,803
3	46,780	3,898
4	47,950	3,996
5	49,149	4,096

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 15 - OPERATING LEASES - LESSEE DISCLOSURE - (Continued)

- B.** On June 25, 2009, the Center entered into a lease agreement with the Delaware Area Career Center (the “Landlord”) to rent building space. The length of the lease shall be for a period of 48 months commencing July 1, 2009, and ending on June 30, 2013. The Center retains the option to renew for an additional four year term upon the same terms of this lease, subject to a two percent yearly rent increase.

The Center shall pay to the Landlord the annual base rent payable in monthly installments each in advance on or before the first day of each and every month during the term. The annual base rent shall be paid as follows:

<u>Lease Year</u>	<u>Annual Base Rent</u>	<u>Monthly Base Rent</u>
1	\$ 9,326	\$ 777
2	9,513	793
3	9,703	809
4	9,897	825

NOTE 16 - CONTINGENCIES

A. Grants

The Center receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

B. Litigation

The Center is not a party to legal proceedings that would have a material effect, if any, on the financial condition of the Center.

SUPPLEMENTARY INFORMATION

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(C) PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH OHIO DEPARTMENT OF EDUCATION				
Special Education Grant Cluster:				
(B) Special Education_Grants to States	84.027	2007	\$ -	\$ 186,180
(B) Special Education_Grants to States	84.027	2008	624,524	540,826
(B) Special Education_Grants to States	84.027	2008	9,240	45,270
(B) Special Education_Grants to States	84.027	2008	703,027	1,839,773
(B) Special Education_Grants to States	84.027	2009	140,694	190,998
(B) Special Education_Grants to States	84.027	2009	1,499,399	1,542,194
(B) Special Education_Grants to States	84.027	2009	-	75,880
(B) Special Education_Grants to States	84.027	2009	271,419	373,159
Total Special Education _Grants to States			3,248,303	4,794,280
(B) Special Education_Preschool Grants	84.173	2008	31,014	25,602
(B) Special Education_Preschool Grants	84.173	2009	6,000	6,000
(B) Special Education_Preschool Grants	84.173	2009	32,840	44,463
Total Special Education_Preschool Grants			69,854	76,065
Total Special Education Grant Cluster			3,318,157	4,870,345
State Grants for Innovative Programs	84.298	2008	90,698	90,698
State Grants for Innovative Programs	84.298	2009	163,587	188,875
Total State Grants for Innovative Programs			254,285	279,573
Special Education - State Personnel Development	84.323	2007	84,375	5,334
Special Education - State Personnel Development	84.323	2008	18,497	-
Special Education - State Personnel Development	84.323	2009	10,001	12,640
Total Special Education - State Personnel Development			112,873	17,974
(D) English Language Acquisition Grants	84.365	2007	(4,853)	-
(D) English Language Acquisition Grants	84.365	2008	9,184	14,265
(D) English Language Acquisition Grants	84.365	2009	32,714	38,502
Total English Language Acquisition Grants			37,045	52,767
School Improvement Grants	84.377	2009	4,000	-
Total School Improvement Grants			4,000	-
Total U.S. Department of Education passed through Ohio Department of Education			3,726,360	5,220,659
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH N/A				
(D) Fund for the Improvement of Education	84.215	2007	(1,000)	-
(D) Fund for the Improvement of Education	84.215	2008	130,160	55,263
(D) Fund for the Improvement of Education	84.215	2009	123,442	135,818
Total Fund for the Improvement of Education			252,602	191,081
Total U.S. Department of Education			3,978,962	5,411,740
				- Continued

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(C) PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH FRANKLIN COUNTY JOB AND FAMILY SERVICES				
Temporary Assistance for Needy Families	93.558	2007	\$ 826,477	\$ 551,679
Temporary Assistance for Needy Families	93.558	2008	270,806	667,088
Temporary Assistance for Needy Families	93.558	2008	-	326,295
Temporary Assistance for Needy Families	93.558	2009	22,330	51,538
Temporary Assistance for Needy Families	93.558	2009	232,637	257,298
Total Temporary Assistance for Needy Families			<u>1,352,250</u>	<u>1,853,898</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES				
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	2009	-	1,935
Total Medicaid Infrastructure Grants			<u>-</u>	<u>1,935</u>
Total U.S. Department of Health and Human Service:			<u>1,352,250</u>	<u>1,855,833</u>
U.S. DEPARTMENT OF LABOR PASSED THROUGH OHIO DEPARTMENT OF JOB AND FAMILY SERVICES				
WIA Adult Program	17.258	2009	-	33,529
Total WIA Adult Program			<u>-</u>	<u>33,529</u>
Total U.S. Department of Labor			<u>-</u>	<u>33,529</u>
Total Federal Financial Assistance			<u>\$ 5,331,212</u>	<u>\$ 7,301,102</u>

(A) This schedule was prepared on the cash basis of accounting.

(B) Included as part of "Special Education Grant Cluster" in determining major programs.

(C) OAKS did not assign pass-through numbers for fiscal year 2009.

(D) The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with approval from the Ohio Department of Education, or the U.S. Department of Education, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts approved between the cost centers. During fiscal year 2009, the following amounts were authorized for transfer:

Program Title	CFDA	Grant Year	Transfers Out	Transfers In
Fund for the Improvement of Education	84.215	2007	\$ 1,000	
Fund for the Improvement of Education	84.215	2009		\$ 1,000
Fund for the Improvement of Education	84.215	2008	\$ 71,230	
Fund for the Improvement of Education	84.215	2009		\$ 71,230
English Language Acquisition Grants	84.365	2007	\$ 4,853	
English Language Acquisition Grants	84.365	2009		\$ 4,853
English Language Acquisition Grants	84.365	2008	\$ 7,654	
English Language Acquisition Grants	84.365	2009		\$ 7,654
Totals			<u>\$ 84,737</u>	<u>\$ 84,737</u>



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Governing Board
Educational Service Center of Central Ohio
2080 Citygate Drive
Columbus, OH 43219

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Central Ohio, Franklin County, Ohio, as of and for the fiscal year ended June 30, 2009, which collectively comprise the Educational Service Center of Central Ohio's basic financial statements and have issued our report thereon dated December 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center of Central Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Educational Service Center of Central Ohio's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Educational Service Center of Central Ohio's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Educational Service Center of Central Ohio's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Educational Service Center of Central Ohio's financial statements that is more than inconsequential will not be prevented or detected by the Educational Service Center of Central Ohio's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Educational Service Center of Central Ohio's internal control.

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

Governing Board
Educational Service Center of Central Ohio

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Educational Service Center of Central Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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



Julian & Grube, Inc.
December 28, 2009



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its
Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Governing Board
Educational Service Center of Central Ohio
2080 Citygate Drive
Columbus, OH 43219

Compliance

We have audited the compliance of the Educational Service Center of Central Ohio, Franklin County, Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2009. The Educational Service Center of Central Ohio's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Educational Service Center of Central Ohio's management. Our responsibility is to express an opinion on the Educational Service Center of Central Ohio's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Educational Service Center of Central Ohio'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 of Central Ohio's compliance with those requirements.

In our opinion, the Educational Service Center of Central Ohio complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2009.

Internal Control Over Compliance

The management of the Educational Service Center of Central Ohio 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 of Central Ohio's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Center of Central Ohio's internal control over compliance.

Governing Board
Educational Service Center of Central Ohio

A control deficiency in the Educational Service Center of Central Ohio's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Educational Service Center of Central Ohio's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Educational Service Center of Central Ohio's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Educational Service Center of Central Ohio's internal control.

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

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



Julian & Grube, Inc.
December 28, 2009

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2009**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for the major federal program?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for the major federal program?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Special Education Grant Cluster: Special Education Grants to States - CFDA #84.027 and Special Education Preschool Grants - CFDA #84.173
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; Finding no Longer Valid
2008-ESCFC-001	<u>Significant Deficiency</u> - The Center's audited financial report was completed approximately one month subsequent to the due date.	Yes	N/A
2008-ESCFC-002	<u>Significant Deficiency</u> - Audit adjustments were necessary to properly present the financial statements.	Yes	N/A



Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

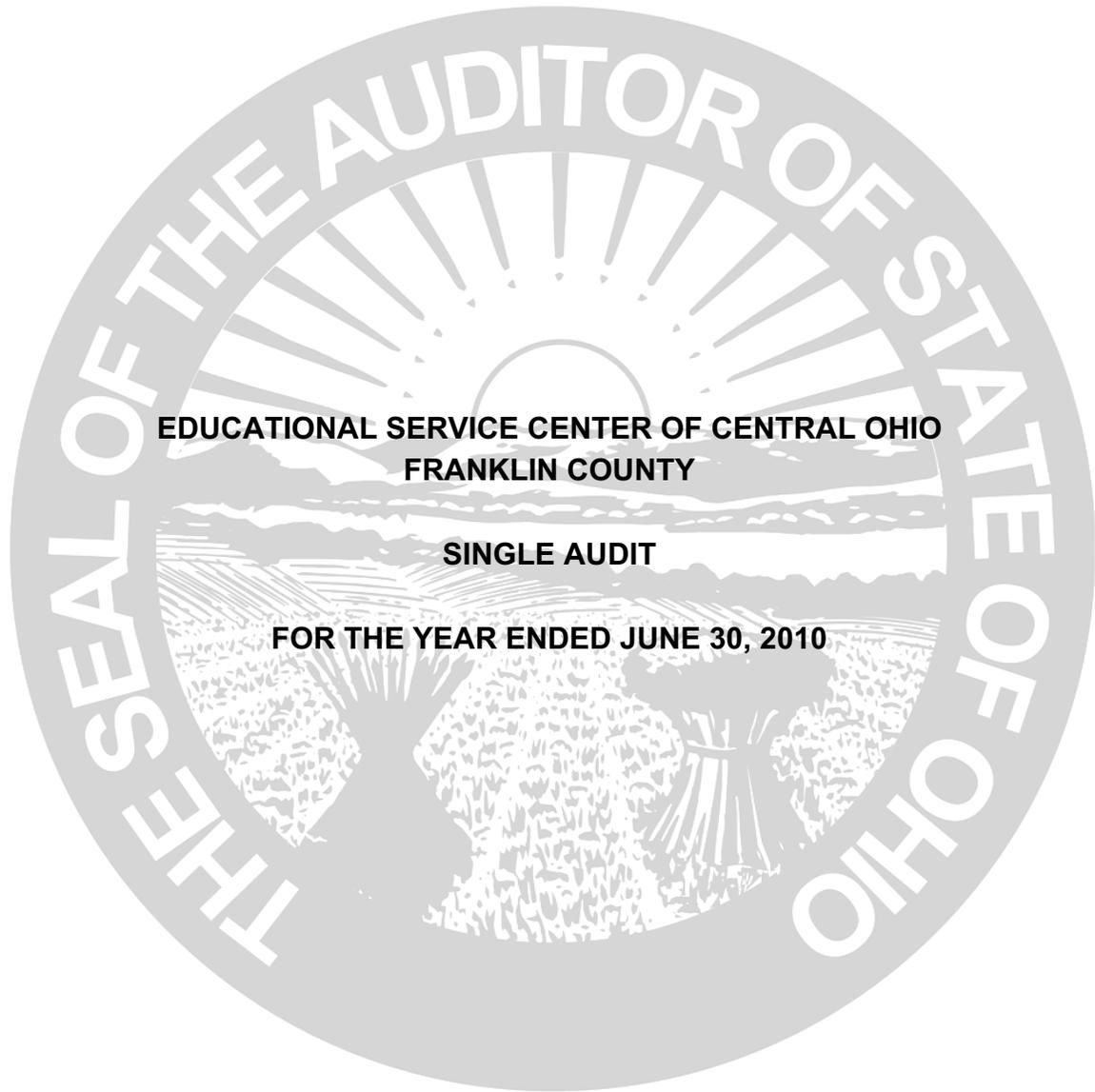
CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 18, 2010



**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2010



Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center of Central Ohio
Franklin County
2080 Citygate Drive
Columbus, Ohio 43219

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Educational Service Center of Central Ohio, Franklin County, Ohio (the Center), as of and for the year ended June 30, 2010, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Educational Service Center of Central Ohio, Franklin County, Ohio, as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2011, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 Center's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures 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

May 31, 2011

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The management's discussion and analysis of the Educational Service Center of Central Ohio's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- In total, net assets of governmental activities decreased \$2,743,617 which represents a 14% decrease from 2009.
- General revenues accounted for \$6,021,661 in revenue or 11.38% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$46,854,965 or 88.79% of total revenues of \$52,876,626.
- The Center had \$55,620,243 in expenses related to governmental activities; \$46,854,965 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) were adequate to provide for these programs.
- The Center's major governmental funds include the general fund and the miscellaneous federal grants special revenue fund. The general fund had \$46,455,315 in revenues and other financing sources and \$49,373,679 in expenditures and other financing uses. During fiscal year 2010, the general fund's fund balance decreased \$2,918,364 from \$14,621,302 to \$11,702,938.
- The miscellaneous federal grants special revenue fund had \$1,020,108 in revenues and other financing sources and \$1,151,623 in expenditures. During fiscal year 2010, its deficit balance increased \$131,515 from a deficit of \$10,598 to a deficit of \$142,113.

Using these Basic Financial Statements (BFS)

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

The *statement of net assets* and *statement of activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other nonmajor funds presented in total in one column. The Center reports the general fund and miscellaneous federal grants fund as major funds.

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include increased or decreased services desired by school districts, State budget cuts, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the Center's programs and services, including instruction, support services, and other operations.

The government-wide financial statements include not only the activity of the Center itself (known as the primary government), but also a separate entity which has been reported as a discretely presented component unit.

The Center's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 9. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-18 of this report.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Proprietary Fund

The Center maintains only one type of proprietary fund. The internal service fund is an accounting device used to accumulate and allocate costs internally among the Center's various functions. The Center has one internal service fund that accounts for a self-insurance program which provides health and dental benefits to the Center's employees. The basic proprietary fund financial statements can be found on pages 19-21 of this report.

Reporting the Center's Fiduciary Responsibilities

The Center maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the Center's fiduciary activities are reported in a separate statement of fiduciary net assets on page 22. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-54 of this report.

The Center as a Whole

The statement of net assets provides the perspective of the Center as a whole. The table below provides a summary of the Center's net assets for 2010 and 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current and other assets	\$ 22,588,562	\$ 24,474,178
Capital assets	<u>6,167,260</u>	<u>5,836,529</u>
Total assets	<u>28,755,822</u>	<u>30,310,707</u>
<u>Liabilities</u>		
Current liabilities	7,040,907	5,858,051
Long-term liabilities	<u>5,219,881</u>	<u>5,214,005</u>
Total liabilities	<u>12,260,788</u>	<u>11,072,056</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,892,330	2,523,663
Restricted	1,589,882	2,588,889
Unrestricted	<u>12,012,822</u>	<u>14,126,099</u>
Total net assets	<u>\$ 16,495,034</u>	<u>\$ 19,238,651</u>

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the Center's assets exceeded liabilities by \$16,495,034. Of this total, \$12,012,822 is unrestricted in use.

At year-end, capital assets represented 21.46% of total assets. Capital assets include land, buildings, furniture and equipment and vehicles. Capital assets, net of related debt at June 30, 2010, were \$2,892,330. These capital assets are used to provide the Center's services and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net assets, \$1,589,882, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$12,012,822 may be used to meet the Center's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2010 and 2009.

Change in Net Assets

	Governmental Activities 2010	Governmental Activities 2009
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 37,243,045	\$ 41,730,856
Operating grants and contributions	9,611,920	10,641,393
General revenues:		
Grants and entitlements	5,536,482	4,560,256
Investment earnings	105,438	183,001
Other	379,741	366,092
Total revenues	\$ 52,876,626	\$ 57,481,598

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

	Change in Net Assets	
	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 755,216	\$ 493,580
Special	9,970,923	14,630,501
Vocational	-	507,440
Adult education	52,670	-
Support services:		
Pupil	9,473,212	2,791,348
Instructional staff	14,094,223	19,056,720
Board of education	85,030	81,161
Administration	13,544,778	10,813,723
Fiscal	3,200,531	2,469,813
Business	637,305	437,217
Operations and maintenance	1,100,398	656,126
Pupil transportation	252,939	36,919
Central	2,107,478	1,592,366
Operation of non-instructional services	104,831	580
Extracurricular	91,444	28,535
Interest and fiscal charges	<u>149,265</u>	<u>158,846</u>
Total expenses	<u>55,620,243</u>	<u>53,754,875</u>
Special item:		
Delaware-Union ESC net assets upon merger	<u>-</u>	<u>1,196,679</u>
Change in net assets	(2,743,617)	4,923,402
Net assets at beginning of year	<u>19,238,651</u>	<u>14,315,249</u>
Net assets at end of year	<u>\$ 16,495,034</u>	<u>\$ 19,238,651</u>

Governmental Activities

Net assets of the Center's governmental activities decreased \$2,743,617 during fiscal year 2010. Total governmental expenses of \$55,620,243 were offset by program revenues of \$46,854,965 and general revenues of \$6,021,661. Program revenues supported 84.20% of the total governmental expenses.

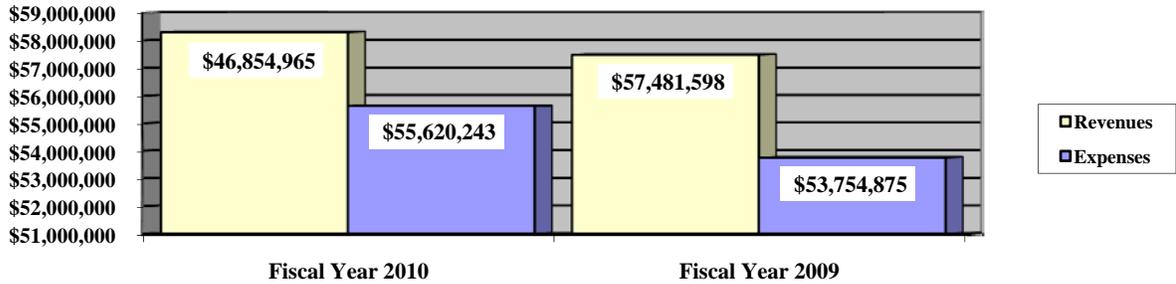
The primary sources of revenue for governmental activities are derived from tuition and contracted fees for services provided to other entities. This revenue source represents 79.48% of total governmental revenue.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2010 and 2009.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted state grants and entitlements, and other general revenues not restricted to a specific program.

Governmental Activities

	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>
Program expenses				
Instruction:				
Regular	\$ 755,216	\$ 712,057	\$ 493,580	\$ 373,698
Special	9,970,923	1,967,632	14,630,501	(286,782)
Vocational	-	-	507,440	4,124
Other	52,670	52,670	-	-
Support services:				
Pupil	9,473,212	2,001,802	2,791,348	66,347
Instructional staff	14,094,223	1,793,420	19,056,720	376,140
Board of education	85,030	18,456	81,161	381
Administration	13,544,778	434,223	10,813,723	641,904
Fiscal	3,200,531	470,733	2,469,813	(89,743)
Business	637,305	143,057	437,217	4,824
Operations and maintenance	1,100,398	199,689	656,126	80,871
Pupil transportation	252,939	249,042	36,919	36,919
Central	2,107,478	376,957	1,592,366	(14,018)
Operation of non-instructional services	104,831	104,831	580	580
Extracurricular	91,444	91,444	28,535	28,535
Interest and fiscal charges	149,265	149,265	158,846	158,846
Total expenses	\$ 55,620,243	\$ 8,765,278	\$ 53,754,875	\$ 1,382,626

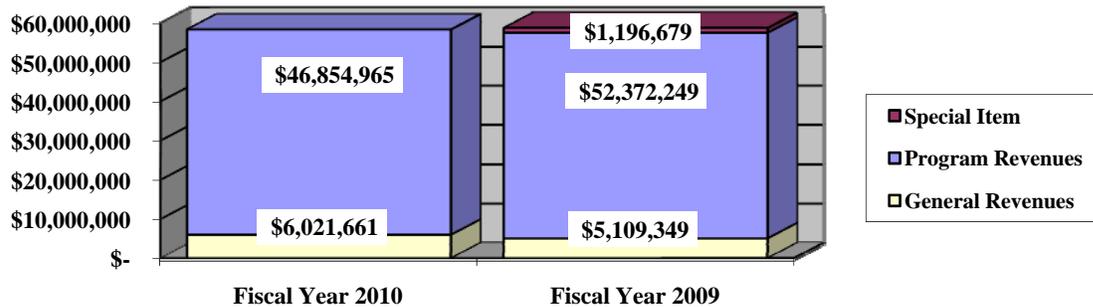
For all governmental activities, program revenue support is 84.24% at June 30, 2010 and 97.43% at June 30, 2009. The primary support of the Center is contracted fees for services provided to other districts.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The graph below presents the Center's governmental activities revenue for fiscal year 2010 and 2009.

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$12,081,749, which is lower than last year's total of \$15,133,266. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance (Deficit) <u>June 30, 2010</u>	Fund Balance (Deficit) <u>June 30, 2009</u>	<u>Decrease</u>
General	\$ 11,702,938	\$ 14,621,302	\$ (2,918,364)
Miscellaneous Federal Grants	(142,113)	(10,598)	(131,515)
Other Governmental	<u>520,924</u>	<u>522,562</u>	<u>(1,638)</u>
Total	<u>\$ 12,081,749</u>	<u>\$ 15,133,266</u>	<u>\$ (3,051,517)</u>

General Fund

The Center's general fund balance decreased in fiscal year 2010 by \$2,918,364. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Tuition	\$ 13,886,240	\$ 19,696,381	(29.50) %
Customer services	22,298,545	21,260,219	4.88 %
Earnings on investments	108,066	161,133	(32.93) %
Intergovernmental	9,465,852	4,560,256	107.57 %
Other revenues	<u>304,466</u>	<u>913,858</u>	(66.68) %
 Total	 <u>\$ 46,063,169</u>	 <u>\$ 46,591,847</u>	 (1.13) %
<u>Expenditures</u>			
Instruction	\$ 9,541,936	\$ 13,861,459	(31.16) %
Support services	38,102,214	27,546,526	38.32 %
Operation of non-instructional services	120,709	542	22,171.03 %
Extracurricular activities	91,490	28,533	220.65 %
Facilities acquisition and construction	394,863	-	100.00 %
Debt service	<u>418,976</u>	<u>321,438</u>	30.34 %
 Total	 <u>\$ 48,670,188</u>	 <u>\$ 41,758,498</u>	 16.55 %

Tuition revenues decreased and intergovernmental revenues increased as certain revenues were reclassified in fiscal year 2010. The Center experienced lower collections from member districts which contributed to the decrease in tuition revenues. This also led to an increase in deferred revenues for the general fund at fiscal year end. Earnings on investments decreased as a result of lower interest rates. Intergovernmental revenues increased due in part to additional grants received from both state and federal sources. Instruction expenditures decreased as the Center's spending on special instruction dropped. The increase in support services expenditures is the result of higher expenses for pupil and administrative support. Facilities acquisition and construction for fiscal year 2010 is related to the Center's new capital lease agreement entered into during the fiscal year. Debt service expenditures increased due to lease payments on the aforementioned lease.

Miscellaneous Federal Grants Fund

During fiscal year 2010, the miscellaneous federal grants fund balance decreased \$131,515. The decrease in fund balance can be attributed to a decrease in grant revenues received by fiscal year-end. Deferred grant revenues for 2010 are \$774,197. Revenues and other financing sources totaled \$1,020,108 and expenditures totaled \$1,151,623 during fiscal year 2010.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Capital Assets and Debt Administration

Capital Assets

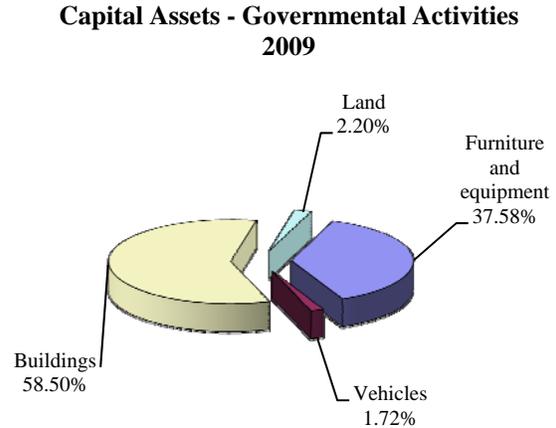
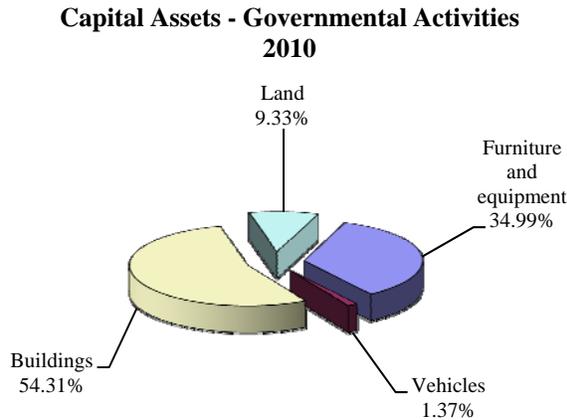
At the end of fiscal year 2010, the Center had \$6,167,260 invested in land, buildings, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2010 balances compared to 2009:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2010	2009
Land	\$ 575,181	\$ 128,300
Buildings	3,349,610	3,414,317
Furniture and equipment	2,158,011	2,193,406
Vehicles	84,458	100,506
Total	<u>\$ 6,167,260</u>	<u>\$ 5,836,529</u>

Total additions to capital assets for 2010 were \$1,127,247. A total of \$741,606 in depreciation expense was recognized and disposals were \$54,910 (net of accumulated depreciation) for fiscal year 2010.

The graphs below present the Center's capital assets for fiscal years 2010 and 2009.



See Note 7 to the basic financial statements for additional information on the Center's capital assets.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Debt Administration

At June 30, 2010 the Center had \$3,274,930 in a lease purchase and capital lease agreement outstanding. Of this total, \$288,125 is due within one year and \$2,986,805 is due in greater than one year. The following table summarizes the debt outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities 2010	Governmental Activities 2009
	<u>2010</u>	<u>2009</u>
Lease Purchase Agreement	\$ 2,968,000	\$ 3,153,000
Capital lease obligations	<u>306,930</u>	<u>159,866</u>
Total	<u>\$ 3,274,930</u>	<u>\$ 3,312,866</u>

See Note 9 to the basic financial statements for detail on the Center's debt administration.

Current Financial Related Activities

The Center is in a stable financial position at the end of June 2010. The Governing Board has a permanent improvement fund to cover possible future office space needs or payment of office building rental, and future technology equipment needs. Legislative requirements for the development of Ohio Educational Regional Service System will have an impact on educational service centers in the future. At this time, it is impossible to determine what effect this legislation will have on the Educational Service Center of Central Ohio.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. Questions regarding this report or requests for need additional financial information should be directed to Mr. Alan Hutchinson, Treasurer, Educational Service Center of Central Ohio, 2080 Citygate Dr., Columbus, Ohio 43219.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	<u>Component Unit</u>
Assets:		
Equity in pooled cash and cash equivalents. . .	\$ 15,879,482	\$ 512,512
Receivables:		
Accounts.	60,000	-
Intergovernmental	6,542,277	984,034
Accrued interest	28,699	-
Prepayments.	68,453	-
Loans	9,651	-
Capital assets:		
Land.	575,181	-
Depreciable capital assets, net.	5,592,079	-
Capital assets, net	<u>6,167,260</u>	<u>-</u>
 Total assets	 <u>28,755,822</u>	 <u>1,496,546</u>
 Liabilities:		
Accounts payable.	526,670	-
Accrued wages and benefits	3,531,836	577,781
Intergovernmental payable	988,406	252,360
Claims payable.	806,078	-
Accrued interest payable	11,020	-
Unearned revenue	1,176,897	-
Long-term liabilities:		
Due within one year.	945,836	-
Due in more than one year	4,274,045	-
 Total liabilities	 <u>12,260,788</u>	 <u>830,141</u>
 Net assets:		
Invested in capital assets, net of related debt.	2,892,330	-
Restricted for:		
Capital projects	453,908	-
Locally funded programs	91,017	-
State funded programs.	3,142	-
Federally funded programs	1,014,199	-
Student activities	205	-
Public school support	27,411	-
Unrestricted.	12,012,822	666,405
 Total net assets	 <u>\$ 16,495,034</u>	 <u>\$ 666,405</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Unit</u>
Governmental activities:					
Instruction:					
Regular	\$ 755,216	\$ 32,620	\$ 10,539	\$ (712,057)	\$ -
Special	9,970,923	7,245,759	757,532	(1,967,632)	-
Other	52,670	-	-	(52,670)	-
Support services:					
Pupil	9,473,212	7,326,568	144,842	(2,001,802)	-
Instructional staff	14,094,223	8,801,788	3,499,015	(1,793,420)	-
Board of education	85,030	66,574	-	(18,456)	-
Administration	13,544,778	9,629,616	3,480,939	(434,223)	-
Fiscal	3,200,531	1,462,301	1,267,497	(470,733)	-
Business	637,305	494,248	-	(143,057)	-
Operations and maintenance	1,100,398	725,139	175,570	(199,689)	-
Pupil transportation	252,939	-	3,897	(249,042)	-
Central	2,107,478	1,458,432	272,089	(376,957)	-
Operation of non-instructional services	104,831	-	-	(104,831)	-
Extracurricular activities	91,444	-	-	(91,444)	-
Interest and fiscal charges	149,265	-	-	(149,265)	-
Total governmental activities	<u>\$ 55,620,243</u>	<u>\$ 37,243,045</u>	<u>\$ 9,611,920</u>	<u>(8,765,278)</u>	<u>-</u>
Component Unit:					
Educational Service Center					
Council of Governments	<u>\$ 8,753,314</u>	<u>\$ 9,289,074</u>	<u>\$ -</u>	<u>-</u>	<u>535,760</u>
General revenues:					
Grants and entitlements not restricted to specific programs				5,536,482	-
Investment earnings				105,438	-
Miscellaneous				379,741	-
Total general revenues				<u>6,021,661</u>	<u>-</u>
Change in net assets				(2,743,617)	535,760
Net assets at beginning of year				<u>19,238,651</u>	<u>130,645</u>
Net assets at end of year				<u>\$ 16,495,034</u>	<u>\$ 666,405</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>General</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 13,613,935	\$ -	\$ 641,915	\$ 14,255,850
Receivables:				
Accounts	-	-	60,000	60,000
Intergovernmental	4,733,168	1,149,770	659,339	6,542,277
Accrued interest	28,699	-	-	28,699
Due from other funds	377,578	-	-	377,578
Loans to other funds	4,889	-	-	4,889
Prepayments	63,672	3,170	1,611	68,453
Loans	9,651	-	-	9,651
Total assets	<u>\$ 18,831,592</u>	<u>\$ 1,152,940</u>	<u>\$ 1,362,865</u>	<u>\$ 21,347,397</u>
Liabilities:				
Accounts payable	\$ 327,799	\$ 134,392	\$ 64,479	\$ 526,670
Accrued wages and benefits	3,374,533	39,577	117,726	3,531,836
Compensated absences payable	69,069	-	-	69,069
Intergovernmental payable	887,639	22,500	78,267	988,406
Due to other funds	-	324,387	53,191	377,578
Loans from other funds	-	-	4,889	4,889
Deferred revenue	1,321,588	774,197	494,518	2,590,303
Unearned revenue	<u>1,148,026</u>	<u>-</u>	<u>28,871</u>	<u>1,176,897</u>
Total liabilities	<u>7,128,654</u>	<u>1,295,053</u>	<u>841,941</u>	<u>9,265,648</u>
Fund balances:				
Reserved for encumbrances	1,065,396	308,236	695,376	2,069,008
Reserved for prepayments	63,672	3,170	1,611	68,453
Reserved for loans	4,889	-	-	4,889
Unreserved, undesignated (deficit), reported in:				
General fund	10,568,981	-	-	10,568,981
Special revenue funds	-	(453,519)	(565,402)	(1,018,921)
Capital projects fund	<u>-</u>	<u>-</u>	<u>389,339</u>	<u>389,339</u>
Total fund balances (deficit)	<u>11,702,938</u>	<u>(142,113)</u>	<u>520,924</u>	<u>12,081,749</u>
Total liabilities and fund balances	<u>\$ 18,831,592</u>	<u>\$ 1,152,940</u>	<u>\$ 1,362,865</u>	<u>\$ 21,347,397</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010**

Total governmental fund balances		\$ 12,081,749
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		6,167,260
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Tuition and customer services receivable	\$ 1,304,961	
Intergovernmental receivable	1,268,715	
Accrued interest receivable	<u>16,627</u>	
Total		2,590,303
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.		817,554
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(11,020)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,875,882)	
Capital lease obligation	(306,930)	
Lease purchase agreement	<u>(2,968,000)</u>	
Total		<u>(5,150,812)</u>
Net assets of governmental activities		<u><u>\$ 16,495,034</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition	\$ 13,886,240	\$ -	\$ -	\$ 13,886,240
Customer services	22,298,545	-	755,122	23,053,667
Earnings on investments	108,066	-	-	108,066
Rental income	120,362	-	-	120,362
Extracurricular	-	-	2,101	2,101
Contributions and donations	155,357	-	1,000	156,357
Other local revenues	28,747	-	25,149	53,896
Intergovernmental - intermediate	299,171	-	250,592	549,763
Intergovernmental - state	8,050,803	34,790	1,340,609	9,426,202
Intergovernmental - federal	1,115,878	871,827	3,966,179	5,953,884
Total revenues	<u>46,063,169</u>	<u>906,617</u>	<u>6,340,752</u>	<u>53,310,538</u>
Expenditures:				
Current:				
Instruction:				
Regular	712,582	-	48,155	760,737
Special	8,776,102	425,693	825,324	10,027,119
Other	53,252	-	-	53,252
Support services:				
Pupil	9,320,692	37,369	217,530	9,575,591
Instructional staff	11,114,574	377,164	2,715,084	14,206,822
Board of education	85,030	-	-	85,030
Administration	12,145,292	260,634	1,128,775	13,534,701
Fiscal	1,782,848	50,763	1,348,657	3,182,268
Business	631,276	-	-	631,276
Operations and maintenance	926,180	-	68,791	994,971
Pupil transportation	233,544	-	4,688	238,232
Central	1,862,778	-	146,309	2,009,087
Operation of non-instructional services	120,709	-	-	120,709
Extracurricular activities	91,490	-	-	91,490
Facilities acquisition and construction	394,863	-	503,847	898,710
Debt service:				
Principal retirement	269,711	-	-	269,711
Interest and fiscal charges	149,265	-	-	149,265
Total expenditures	<u>48,670,188</u>	<u>1,151,623</u>	<u>7,007,160</u>	<u>56,828,971</u>
Excess of expenditures over revenues	(2,607,019)	(245,006)	(666,408)	(3,518,433)
Other financing sources (uses):				
Sale of assets	450	-	74,825	75,275
Transfers in	55	113,491	590,000	703,546
Transfers (out)	(703,491)	-	(55)	(703,546)
Capital lease transaction	391,641	-	-	391,641
Total other financing sources (uses)	<u>(311,345)</u>	<u>113,491</u>	<u>664,770</u>	<u>466,916</u>
Net change in fund balances	(2,918,364)	(131,515)	(1,638)	(3,051,517)
Fund balances (deficits) at beginning of year	<u>14,621,302</u>	<u>(10,598)</u>	<u>522,562</u>	<u>15,133,266</u>
Fund balances (deficits) at end of year	<u>\$ 11,702,938</u>	<u>\$ (142,113)</u>	<u>\$ 520,924</u>	<u>\$ 12,081,749</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Net change in fund balances - total governmental funds \$ (3,051,517)

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

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

Capital asset additions	\$	1,127,247	
Current year depreciation		<u>(741,606)</u>	
Total			385,641

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (54,910)

Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 269,711

Capital lease obligation payable balance forgiven upon termination of the lease reduces long-term liabilities on the statement of net assets. 159,866

Proceeds of capital lease transactions are recorded as revenue in the governmental funds, but the proceeds increase long-term liabilities on the statement of net assets. (391,641)

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

Tuition and customer services		275,888	
Intergovernmental revenue		(782,447)	
Earnings on investments		<u>(11,607)</u>	
Total			(518,166)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among the governmental activities. 478,359

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (20,960)

Change in net assets of governmental activities \$ (2,743,617)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010**

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 1,623,632
Total assets.	1,623,632
Liabilities:	
Claims payable	806,078
Total liabilities	806,078
Net assets:	
Unrestricted.	817,554
Total net assets	\$ 817,554

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 5,841,818
Total operating revenues	5,841,818
 Operating expenses:	
Claims	5,372,438
Total operating expenses.	5,372,438
 Operating income	469,380
 Nonoperating revenues:	
Interest revenue	8,979
Total nonoperating revenues.	8,979
 Change in net assets.	478,359
 Net assets at beginning of year	339,195
Net assets at end of year.	\$ 817,554

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 5,841,818
Cash payments for other claims	(5,434,896)
Net cash provided by operating activities	406,922
Cash flows from investing activities:	
Interest received	8,979
Net cash provided by investing activities	8,979
Net increase in cash and cash equivalents	415,901
Cash and cash equivalents at beginning of year . . .	1,207,731
Cash and cash equivalents at end of year	\$ 1,623,632
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 469,380
Changes in assets and liabilities:	
Decrease in claims payable	(62,458)
Net cash provided by operating activities	\$ 406,922

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2010**

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 3,287,544
Receivables:	
Intergovernmental.	134,802
Prepayments	108
 Total assets.	 \$ 3,422,454
 Liabilities:	
Accounts payable.	\$ 595,323
Accrued wages and benefits	101,139
Compensated absences.	31,511
Intergovernmental payable	2,684,830
Loans payable	9,651
 Total liabilities	 \$ 3,422,454

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - DESCRIPTION OF THE CENTER

The Educational Service Center of Central Ohio (the "Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio.

The Center operates under a locally-elected seven member Governing Board form of government and provides educational services as mandated by State or federal agencies. The Governing Board controls the Center's staff that provides services to over 116,431 students and other community members in Delaware, Franklin, and Union Counties.

The Center provides services in the area of special education classes, supervision, administration, fiscal and other needed services to eight local school districts in Delaware, Franklin, and Union Counties and also has city/county agreements with ten city school districts. In addition, the Center provides contracted services to eleven school districts and fiscal services for various state and local agencies such as the Ohio Department of Education projects and the Catholic Diocese.

The Center serves local school districts: Big Walnut Local School District, Buckeye Valley Local School District, Canal Winchester Local School District, Fairbanks Local School District, Groveport Madison Local School District, Hamilton Local School District, New Albany/Plain Local School District, Olentangy Local School District, and city school districts as provided by S.B. 140, O.R.C. Section 3313.483. Other school districts outside of Delaware, Franklin, and Union Counties are served on an individual contract basis for various services.

The Center is located in Columbus, Ohio and is staffed by 135 administrators, 391 certified and 630 non-certified personnel.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations and student related activities of the Center.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity (Continued)

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's Governing Board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise have access to organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of this criteria, the Center has one component unit, which is discussed below.

The following organizations are described due to their relationship with the Center.

The Center is the fiscal agent for the Franklin County Family and Children First Council (the "Council"). The Center is responsible for receiving and disbursing funds at the direction of the Council. This entity is legally separate from the Center. The Center is the fiscal agent and custodian for the Council, but is not accountable; therefore, the operations of the Council have been included as an agency fund in the Center's basic financial statements. The funds invested on behalf of the Council have been included in the basic financial statements as "equity in pooled cash and cash equivalents".

COMPONENT UNIT

Educational Service Center Council of Governments (the "Council") - The Council is a legally separate body politic and corporate served by an appointed three-member Board of Directors that meets the definition of regional council of governments under chapter 167 of the Ohio Revised Code. The Council provides employment services primarily to the Center. The Council is a jointly governed entity between the Center and the Gahanna-Jefferson Public Schools. Other School Districts, community schools and other political subdivisions that have entered into service agreements with the Council shall automatically be members of the Council's Advisory Committee during the terms of such agreements. The Treasurer of the Center is also the Treasurer of the Council

The Council has been determined to be a discretely presented component unit. The Center's management has determined that it is significant; therefore it has been included as part of the Center's basic financial statements. The Council issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. The report may be obtained by writing to the Treasurer of the Educational Service Center of Central Ohio, 2080 Citygate Dr., Columbus, Ohio 43219.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council (the "MEC") - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts and educational service centers in Franklin County and surrounding areas by cooperative action membership. The Governing Board consists of a representative from each of the Franklin County School districts and the Center. School districts and educational service centers outside of Franklin County are associate members and each county selects a single district or center to represent them on the Governing Board. MEC is its own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the Center.

Delaware Area Career Center

The Delaware Area Career Center (the "Career Center") is a distinct political subdivision of the State of Ohio. The Career Center is operated under the direction of a Board consisting of two representatives from each of the participating school district's elected board, and one representative from the Center. The Career Center possesses its own budgeting and taxing authority. Financial information is available from Christopher Bell, Treasurer, Delaware Area Career Center, at 4505 Columbus Pike, Delaware, Ohio 43015.

Tri-Rivers Career Center

The Tri-Rivers Career Center (the "Career Center") is a distinct political subdivision of the State of Ohio. The Career Center is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, and one representative from the Center. The Career Center possesses its own budgeting and taxing authority. Financial information is available from Steve Earnest, Treasurer, Tri-Rivers Career Center, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

B. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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

The following are the Center's major governmental funds:

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

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting (Continued)

GOVERNMENTAL FUNDS (Continued)

Miscellaneous federal grants fund - The miscellaneous federal grants fund is used to account for various monies received through state agencies from the federal government or directly from the federal government which are not classified elsewhere.

The other governmental funds of the Center account for grants and other resources whose use is restricted to a particular purpose and for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

PROPRIETARY FUNDS

Proprietary funds are used to account for the Center's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is a description of the Center's proprietary fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Center, or to other governments, on a cost-reimbursement basis. The internal service fund of the Center accounts for a self-insurance program which provides medical benefits to employees.

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 Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency funds account for various resources held for other organizations and individuals.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the Center that are governmental and those that are considered business-type.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Center and for each function or program of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Center. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Center.

Fund Financial Statements - Fund financial statements report detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Center finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the Center's internal service fund is charges for services. Operating expenses for internal service funds include charges for services and claims expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

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. Proprietary and fiduciary funds also use the accrual basis of accounting.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Basis of Accounting (Continued)

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

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations.

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 year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a 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 to be both measurable and available at fiscal year end: tuition, grants, and contract services.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. 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 have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

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

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Budgetary Process (Continued)

In fiscal year 2004, the Center requirement to file budgetary information with the Ohio Department of Education was eliminated and the Center has elected to not present budgetary schedules as supplementary information for fiscal year 2010. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated resources. The Center's Board adopts an annual appropriation resolution, which is the Board's, authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds.

F. Cash and Investments

To improve cash management, cash received by the Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2010, investments were limited to investments in negotiable and non-negotiable certificates of deposit (CD's), commercial paper, federal agency securities and the State Treasury Asset Reserve (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The Center has invested funds in STAR Ohio during fiscal year 2010. 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 shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or 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 2010 amounted to \$108,066, which includes \$19,365 assigned from other Center funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Center's investment account at fiscal year-end is provided in Note 4.

G. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$1,000. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land 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:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Building	40 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 15 years

H. Compensated Absences

The Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments.

All employees with eight or more years of service were included in the calculation of the long-term compensated absences accrual amount. Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments as termination or retirement.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Compensated Absences (Continued)

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available 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 noncurrent portion of the liability is not reported.

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Fund Balance Reserves

The Center reserves those 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 encumbrances, prepayments and loans.

K. Net Assets

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

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

L. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Estimates

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund.

O. Interfund Activity

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

P. Interfund Balances

On fund financial statements, receivables and payables to cover deficit cash balances are classified as "due to/from other funds." On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as "loans to/from other funds". These amounts are eliminated in the governmental activities column on the statement of net assets.

Loans between governmental funds and agency funds are reported as "loans receivable/payable" on the financial statements.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the Center has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the Center.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

A. Change in Accounting Principles (Continued)

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the Center.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the Center.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
Miscellaneous federal grants	\$ 142,113
 <u>Nonmajor governmental funds</u>	
Teacher development	9,871
Miscellaneous state grants	23,925
IDEA Part B	68,236
Preschool for handicapped	1,481

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Governing 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.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the 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.

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 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.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the Center had \$750 in undeposited cash on hand which is included on the financial statements of the Center as part of "equity in pooled cash and cash equivalents."

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all Center deposits was \$16,740,453. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$12,585,466 of the Center's bank balance of \$17,019,386 was exposed to custodial risk as discussed below, while \$4,433,920 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center. The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

C. Investments

As of June 30, 2010, the Center had the following investments and maturities:

Investment type	Fair Value	Investment Maturities			
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months
FFCB	\$ 702,342	\$ -	\$ -	\$ 200,312	\$ 502,030
Commercial paper	997,017	997,017	-	-	-
Negotiable CD's	703,745	-	502,363	201,382	-
STAR Ohio	22,719	22,719	-	-	-
	<u>\$ 2,425,823</u>	<u>\$ 1,019,736</u>	<u>\$ 502,363</u>	<u>\$ 401,694</u>	<u>\$ 502,030</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Center's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The Center's investment policy does not specifically address credit risk beyond requiring the Center to only invest in securities authorized by State statute.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FFCB	\$ 702,342	28.95
Commercial paper	997,017	41.10
Negotiable CD's	703,745	29.01
STAR Ohio	22,719	0.94
	<u>\$ 2,425,823</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 16,740,453
Investments	2,425,823
Cash on hand	750
Total	<u>\$ 19,167,026</u>
<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 15,879,482
Agency funds	3,287,544
Total	<u>\$ 19,167,026</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2010, as reported on the fund statements as loans to/from other funds, consist of the following individual long-term interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 4,889

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. The interfund balances are not expected to be repaid within one year.

- B.** Interfund balances at June 30, 2010, as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Miscellaneous federal grants	\$ 324,387
General	Nonmajor governmental funds	53,191

The primary purpose of the due to/from other funds is to cover negative cash at fiscal year end. The interfund balances will be repaid once the anticipated revenues are received. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

- C.** Interfund transfers for the fiscal year ended June 30, 2010, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Miscellaneous state grants	\$ 113,491
Nonmajor governmental funds	590,000
 <u>Transfers from nonmajor governmental funds to:</u>	
General fund	55

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The purpose of the transfers to the general fund was for residual equity transfers to close out various grant funds.

All transfers made in fiscal year 2010 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- D.** Loans between governmental funds and agency funds to cover negative cash at fiscal year end are reported as "loans receivable/payable" on the financial statements. The Center had the following loans outstanding at fiscal year end:

<u>Loan from</u>	<u>Loan to</u>	<u>Amount</u>
General	Agency	\$ 9,651

This loan is expected to be repaid in the subsequent year as resources become available in the agency fund.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 6 - RECEIVABLES

Receivables at June 30, 2010 consisted of intergovernmental (billings to school districts for user charged services), accounts (charges for individual tuition on other services) and accrued interest. All receivables are considered collectible in full. A summary of the items of receivables reported on the statement of net assets follows:

Governmental activities:

Accounts	\$ 60,000
Intergovernmental	6,542,277
Accrued interest	28,699

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance <u>06/30/09</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/10</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 128,300	\$ 446,881	\$ -	\$ 575,181
Capital assets, not being depreciated	<u>128,300</u>	<u>446,881</u>	<u>-</u>	<u>575,181</u>
<i>Capital assets, being depreciated:</i>				
Buildings	3,628,305	27,311	-	3,655,616
Furniture and equipment	4,618,206	653,055	(330,434)	4,940,827
Vehicles	256,712	-	-	256,712
Total capital assets, being depreciated	<u>8,503,223</u>	<u>680,366</u>	<u>(330,434)</u>	<u>8,853,155</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(213,988)	(92,018)	-	(306,006)
Furniture and equipment	(2,424,800)	(633,540)	275,524	(2,782,816)
Vehicles	(156,206)	(16,048)	-	(172,254)
Total accumulated depreciation	<u>(2,794,994)</u>	<u>(741,606)</u>	<u>275,524</u>	<u>(3,261,076)</u>
Governmental activities capital assets, net	<u>\$ 5,836,529</u>	<u>\$ 385,641</u>	<u>\$ (54,910)</u>	<u>\$ 6,167,260</u>

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Special \$ 75,653

Support services:

Instructional staff 82,706

Administration 231,905

Fiscal 1,311

Business 6,508

Operations and maintenance 62,506

Pupil transportation 3,509

Central 277,508

Accumulated depreciation \$741,606

NOTE 8 - LEASE OBLIGATIONS - LESSEE DISCLOSURE

A. Lease-Purchase Agreement

On December 21, 2006, the Center entered into a fifteen year \$3,500,000 lease-purchase agreement to purchase the office building located at 2080 Citygate Drive, Columbus, Ohio. The lease-purchase agreement is with the OASBO Expanded Asset Pool Financing Program with bonds issued through the Columbus Regional Airport Authority. At June 30, 2010, capital assets acquired by lease purchase have been capitalized under land and buildings in the amounts of \$128,300 and \$3,371,700, respectively. Accumulated depreciation on buildings as of June 30, 2010 was \$298,110 leaving a current book value of \$3,073,590. Lease-purchase payments have been reflected as debt service expenditures in the general fund. Principal and interest payments in fiscal year 2010 totaled \$185,000 and \$136,373, respectively.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 8 - LEASE OBLIGATIONS - LESSEE DISCLOSURE - (Continued)

A. Lease-Purchase Agreement (Continued)

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2010.

Fiscal Year Ending June 30,	Total
2011	\$ 320,951
2012	321,151
2013	320,949
2014	320,347
2015	319,343
2016 - 2020	1,591,713
2021 - 2022	634,338
Total minimum lease payments	3,828,792
Less: amount representing interest	(860,792)
Present value of minimum lease payments	\$ 2,968,000

B. Capital Lease Agreement

During fiscal year 2010 the Center entered into capitalized leases for copier equipment. These leases replaced the Center's previous leases which were terminated during the year. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$391,641. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2010 totaled \$84,711 paid by the general fund. In addition to the amount of principal retired, the District also terminated their existing leases with principal balances of \$159,866, which is included in general fund expenditures.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 8 - LEASE OBLIGATIONS - LESSEE DISCLOSURE - (Continued)

B. Capital Lease Agreement (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2010:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 106,476
2012	106,476
2013	106,476
2014	<u>8,873</u>
Total minimum lease payment	328,301
Less: amount representing interest	<u>(21,371)</u>
Present value of minimum lease payments	<u>\$ 306,930</u>

NOTE 9 - LONG-TERM OBLIGATIONS

The Center's long-term obligations at fiscal year end consist of the following:

	<u>Balance Outstanding 06/30/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/10</u>	<u>Amounts Due in One Year</u>
Compensated absences	\$ 1,901,139	\$ 806,297	\$ (762,485)	\$ 1,944,951	\$ 657,711
Capital lease	159,866	391,641	(244,577)	306,930	95,125
Lease purchase agreement	<u>3,153,000</u>	<u>-</u>	<u>(185,000)</u>	<u>2,968,000</u>	<u>193,000</u>
Total long-term obligations	<u>\$ 5,214,005</u>	<u>\$ 1,197,938</u>	<u>\$(1,192,062)</u>	<u>\$ 5,219,881</u>	<u>\$ 945,836</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid which is primarily the general fund. See Note 8 for details on the lease purchase agreement and capital lease.

NOTE 10 - RISK MANAGEMENT

A. General Risk

The 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. The Center has addressed the various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$2,000,000 for each occurrence and \$4,000,000 in the aggregate. Fleet insurance is maintained in the amount of \$1,000,000 for each occurrence.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 10 - RISK MANAGEMENT - (Continued)

A. General Risk (Continued)

The Center maintains commercial property insurance on buildings and buildings contents in the amount of \$13,500,000 with supplemental coverage for computers and classroom equipment in the amount of \$1,900,000.

Other insurance includes hired non-owned auto coverage for employees using their vehicles for Center business.

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

B. Workers' Compensation Liability-Public Entity Risk Pool

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

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts and educational service centers is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP.

Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Health and Dental Insurance

For the former employees of the Educational Service Center of Franklin County and all employees hired after January 1, 2009, by the Center, the Center has established a self-insurance fund for health and dental insurance. Claims are administered by a third party administrator, Polaris Benefit Administrators. The Center pays 80% of contributions and employees pay 20%. These amounts are deposited monthly by check from the general fund, special revenue funds, and other agency funds in an account held by the Center. Expenses for claims are recorded as other expenses when claims are approved and paid.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 10 - RISK MANAGEMENT - (Continued)

C. Health and Dental Insurance (Continued)

A summary of changes in self-insurance claims:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Balance</u> <u>June 30, 2009</u>
Claims liability at beginning of year	\$ 868,536	\$ 444,241
Incurred claims	5,372,438	6,144,337
Claims paid	<u>(5,434,896)</u>	<u>(5,720,042)</u>
Claims liability at end of year	<u>\$ 806,078</u>	<u>\$ 868,536</u>

The former Delaware Union Educational Service Center (DUESC) employees participate in The Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust (CDMU), a public entity shared risk pool consisting of seven school Districts and Madison, Champaign and Marion Counties. The Trust is organized as a Voluntary Employee Benefit association under Section 501 (c) (9) of the Internal Revenue Code and provides medical, dental and life insurance benefits to the employees of the participants. The Trust is responsible for the management and operations of the program. Each participant's superintendent is appointed to the Administrative Committee which advises the Trustee, concerning aspects of the administration of the Trust. 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. Each participant decides which plans offered by the Administrative Committee will be extended to its employees. For employer and employees at June 30, 2010, single coverage is 90% Board paid and 10% employee paid, while family coverage is 72% Board paid and 28% employee paid. 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 the North Union Local District, 12920 State Route 739, Richwood, Ohio 43344.

NOTE 11 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from Center policy and State laws. Only administrative and support personnel who are under a full year contract are eligible for vacation time.

The Superintendent, Deputy Superintendent, Treasurer and Directors receive twenty days of vacation per year. Certified employees on an eleven month contract receive ten days per year. All other full time employees earn up to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to employees upon termination of employment.

Classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
1 - 9	10
10 - 19	15
20 - Beyond	20

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 11 - COMPENSATED ABSENCES - (Continued)

For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of thirty days for employees with less than eight years of service and a maximum of fifty days for employees with eight years or more of service, with the exception of the Superintendent and former Superintendent of DUESC who have no maximum.

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, 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 publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements 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. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,857,554, \$1,463,540 and \$1,199,479, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 12 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or 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 DC Plan 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 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$2,614,519, \$2,243,845 and \$1,640,667, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$240,093 made by the Center and \$171,495 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Governing Board have elected Social Security. The Center's liability is 6.2 percent of wages paid.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each 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 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

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 Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$303,279, \$865,118 and \$727,298, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$110,465, \$120,754 and \$86,425, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The Center contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law 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 Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$201,117, \$172,603 and \$126,205, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

NOTE 14 - STATE FUNDING

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

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the 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 school districts served by the Center through additional reductions in their resources provided through the State Foundation Program. The State Governing Board initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

NOTE 15 - OPERATING LEASES - LESSEE DISCLOSURE

- A. On May 21, 2007, the Center entered into a lease agreement on behalf of the Central Ohio Special Education Regional Resource Center with the Columbus City School District (the "Landlord") to rent space in the Glenmont Elementary School. The length of the lease shall be for a period of 60 months commencing September 1, 2007, and ending on August 31, 2012. Either party may terminate the lease with six months written notice provided the party seeking to terminate is not in default of the lease at the time notice is provided or at any time during the six month notice period.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 15 - OPERATING LEASES - LESSEE DISCLOSURE - (Continued)

The Center shall pay to the Landlord the annual base rent payable in monthly installments each in advance on the first day of each and every month during the term. The annual base rent shall be paid as follows:

<u>Lease Year</u>	<u>Annual Base Rent</u>	<u>Monthly Base Rent</u>
1	\$ 44,526	\$ 3,711
2	45,639	3,803
3	46,780	3,898
4	47,950	3,996
5	49,149	4,096

- B.** On June 25, 2009, the Center entered into a lease agreement with the Delaware Area Career Center (the "Landlord") to rent building space. The length of the lease shall be for a period of 48 months commencing July 1, 2009, and ending on June 30, 2013. The Center retains the option to renew for an additional four year term upon the same terms of this lease, subject to a two percent yearly rent increase.

The Center shall pay to the Landlord the annual base rent payable in monthly installments each in advance on or before the first day of each and every month during the term. The annual base rent shall be paid as follows:

<u>Lease Year</u>	<u>Annual Base Rent</u>	<u>Monthly Base Rent</u>
1	\$ 9,326	\$ 777
2	9,513	793
3	9,703	809
4	9,897	825

NOTE 16 - CONTINGENCIES

A. Grants

The Center receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

B. Litigation

The Center is not a party to legal proceedings that would have a material effect, if any, on the financial condition of the Center.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS

B. Litigation (Continued)

The Educational Service Center Council of Governments (the "Council") has been determined to be a discretely presented component unit. The Center's management has determined that it is significant; therefore it has been included as part of the Center's basic financial statements. The Council issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. The report may be obtained by writing to the Treasurer of the Educational Service Center of Central Ohio, 2080 Citygate Dr., Columbus, Ohio 43219.

The Council is a legally separate body politic and corporate served by an appointed three-member Board of Directors that meets the definition of regional council of governments under chapter 167 of the Ohio Revised Code. The Council provides employment services primarily to the Center.

The Council is a jointly governed entity between the Center and the Gahanna-Jefferson Public Schools. Other School Districts, community schools and other political subdivisions that have entered into service agreements with the Council shall automatically be members of the Council's Advisory Committee during the terms of such agreements. The Treasurer of the Center is also the Treasurer of the Council.

C. Summary of Significant Accounting Policies

Accounting Basis - The basic financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Council also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, provided it does not conflict with or contradict GASB pronouncements. The School does not apply FASB guidance issued after November 30, 1989. Following are the more significant of the Council's accounting policies.

Basis of Presentation - The Council's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

Measurement Focus - Enterprise accounting uses a flow of economic *resources measurement focus*. With this measurement focus, all assets and liabilities associated with the operations are included on the statement of net assets. The difference between total assets and total liabilities is defined as net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the Council finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting - Basis of accounting determines when a transaction is recorded in the financial records and reported in the financial statements. The statements are prepared using the full accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS - (Continued)

C. Summary of Significant Accounting Policies (Continued)

Non-exchange transactions, in which the Council receives value without directly giving equal value in return, include grants, entitlements, and fees. Revenue from grants, entitlements, and fees is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Council must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Council on a reimbursement basis. Expenses are recognized at the time they are incurred.

Budgetary Process - Regional Council of Governments are not subject to budgetary provisions set forth in the Ohio Revised Code Chapter 5705.

Cash and Cash Equivalents - Cash held by the Council is reflected as "Cash and cash equivalents" on the statement of net assets. All monies received by the Council are maintained in a demand deposit account. For internal accounting purposes, the Council segregates its cash. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an original maturity of more than three months are reported as investments. During the current fiscal year, the Council held no investments.

Capital Assets and Depreciation - The Council maintains no capital assets.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Council or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Council applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Council did not have any restricted net assets at fiscal year end.

Estimates - The preparation of financial statements in conformity with GAAP 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.

Operating Revenues and Expenses - Operating revenues are those revenues that are generally directly from the primary activities of the Council. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Council. All revenues and expenses not meeting this definition are reported as non-operating.

D. Cash Deposits

At June 30, 2010, the carrying amount of all Council deposits was \$512,512 and the bank balance was \$521,147. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, all of the bank balance was covered by the Federal Deposit Insurance Corporation.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS - (Continued)

D. Cash Deposits (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the Council will not be able to recover deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Council.

E. Receivables

Receivables at June 30, 2010 consisted of amounts due from operations.

F. Related Party Transactions

The Council is a jointly governed entity between the Center and the Gahanna-Jefferson Public Schools.

G. Contingencies

There are no matters in litigation with the Council as plaintiff or defendant.

H. Risk Management

The Council is exposed to various risks of loss related to torts, theft or damage, destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Council maintains coverage consistent with that of the Center.

I. Pension Plans

i. School Employees Retirement System

Plan Description - The Council contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, 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 publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS - (Continued)

I. Pension Plans (Continued)

i. School Employees Retirement System (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Council is required to contribute at an actuarially determined rate. The current Council rate is 14 percent of annual covered payroll. A portion of the Council's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements 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. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Council's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009 and 2010 were \$10,725 and \$316,377, respectively; 100 percent has been contributed for both fiscal years.

ii. State Teachers Retirement System of Ohio

Plan Description - The Council participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 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 (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or 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 DC Plan 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 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS - (Continued)

I. Pension Plans (Continued)

ii. State Teachers Retirement System of Ohio (Continued)

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Council was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Council's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009 and 2010 were \$342,436 and \$513,476, respectively; 100 percent has been contributed for both fiscal years.

J. Postemployment Benefits

i. School Employees Retirement System

Plan Description - The Council participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each 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 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS - (Continued)

J. Postemployment Benefits (Continued)

i. School Employees Retirement System (Continued)

Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

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 Council's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009 and 2010 were \$4,908 and \$128,102, respectively; 100 percent has been contributed for both fiscal years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Council's contributions for Medicare Part B for the fiscal years ended June 30, 2009 and 2010 were \$885 and \$16,949, respectively; 100 percent has been contributed for both fiscal years.

ii. State Teachers Retirement System of Ohio

Plan Description - The Council contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law 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 Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Council's contributions for health care for the fiscal year ended June 30, 2009 was \$36,67; 100 percent has been contributed.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Directly received from the U.S. Department of Education:</i>				
Fund for the Improvement of Education	2010	84.215	\$ 178,005	\$ 165,629
Fund for the Improvement of Education	2011	84.215	151,766	151,766
<i>Total for Fund for the Improvement of Education</i>			<u>329,771</u>	<u>317,395</u>
Rehabilitation services Demonstration and Training Programs	2011	84.235	59,580	59,580
Rehabilitation services Demonstration and Training Programs	2009	84.235	56,008	31,748
<i>Total Rehabilitation services Demonstration and Training Programs</i>			<u>115,588</u>	<u>91,328</u>
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2007	84.010	1,458	6,000
ARRA- Title I Grants to Local Educational Agencies	2010	84.389	71,714	40,788
<i>Total Title I Grants to Local Educational Agencies Cluster</i>			<u>73,172</u>	<u>46,788</u>
Special Education Grants to States	2008	84.027	2,327,924	624,639
Special Education Grants to States	2009	84.027	825,328	628,276
Special Education Grants to States	2010	84.027	2,163,182	2,111,674
Special Education-Preschool Grants	2010	84.173	107,304	130,508
Special Education-Preschool Grants	2009	84.173	28,836	16,555
Special Education-Preschool Grants	2008	84.173	0	2,446
ARRA- Special Education-Preschool Grants	2010	84.392	81,578	63,619
<i>Total Special Education Cluster</i>			<u>3,206,228</u>	<u>3,577,717</u>
Special Education State Personnel Development	2010	84.323	29,495	9,645
Special Education State Personnel Development	2008	84.323	34,790	32,150
<i>Total Special Education State Personnel Development</i>			<u>64,285</u>	<u>41,795</u>
English Language Acquisition Grants	2009	84.365	19,641	24,879
English Language Acquisition Grants	2010	84.365	20,197	14,409
<i>Total English Language Acquisition Grants</i>			<u>39,838</u>	<u>39,288</u>
Foreign Language Assistance	2009	84.293	111,750	94,188
Twenty-First Century Community Learning Centers	2010	84.287	2,600	9,300
Special Education Parent Information Centers	2009	84.328	67,064	30,869
Improving Teacher Quality State Grants	2010	84.367	135,193	135,193
Improving Teacher Quality State Grants	2009	84.367	56,848	60,000
<i>Total for Improving Teacher Quality State Grants</i>			<u>192,041</u>	<u>195,193</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>4,475,260</u>	<u>4,443,861</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through Ohio Department of Developmental Disabilities</i>				
Refugee and Entrant Assistance State Administered Programs	2010	93.566	48,040	47,291
Refugee and Entrant Assistance State Administered Programs	2009	93.566	82,552	82,552
			<u>130,592</u>	<u>129,843</u>
<i>Passed through the Ohio Department of Health & Human Services</i>				
Temporary Assistance for Needy Families	2010	93.558	140,725	486,229
Temporary Assistance for Needy Families	2009	93.558	345,383	102,598
			<u>486,108</u>	<u>588,827</u>
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	2009	93.768	10,000	7,871
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	2010	93.768	81,000	152,856
			<u>91,000</u>	<u>160,727</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>707,700</u>	<u>879,397</u>
<u>U.S. Department of Labor</u>				
<i>Passed through the Ohio Department of Job & Family Services</i>				
WIA Adult Program	2010	17.258	90,716	43,326
WIA Dislocated Workers	2010	17.260	0	5,988
TOTAL U.S. DEPARTMENT OF LABOR			<u>90,716</u>	<u>49,314</u>
TOTALS			<u>\$ 5,273,676</u>	<u>\$ 5,372,572</u>

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

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Educational Service Center of Central Ohio (the Center's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require the Center to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



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

Educational Service Center of Central Ohio
Franklin County
2080 Citygate Drive
Columbus, Ohio 43219

To the Governing Board:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Educational Service Center of Central Ohio, Franklin County, Ohio (the Center) as of and for the year ended June 30, 2010, which collectively comprise the Center's basic financial statements and have issued our report thereon dated May 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the 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 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 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated May 31, 2011.

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Center's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Governing Board, federal awarding agencies and pass-through entities, and others within the Center. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

May 31, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Educational Service Center of Central Ohio
Franklin County
2080 Citygate Drive
Columbus, Ohio 43219

To the Governing Board:

Compliance

We have audited the compliance of the Educational Service Center of Central Ohio, Franklin County, Ohio (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Center's major federal program for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

As described in finding 2010-002 in the accompanying schedule of findings and questioned costs, the Center did not comply with requirements regarding allowable costs, period of availability, and cash management applicable to its Special Education Cluster major federal program. Compliance with these requirements is necessary, in our opinion, for the Center to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Center complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-002 to be a material weakness.

The Center's response to the finding we identified is described in the accompanying schedule of findings and questioned costs. We did not audit the Center's response and, accordingly, we express no opinion on it.

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



Dave Yost
Auditor of State

May 31, 2011

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	ARRA/Special Education Grants to States (CFDA #84.027, 84.173, 84.392)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2010-001

Finding for Recovery –Repaid Under Audit– Material Non-Compliance

The ESC's board-approved severance policy provides for payment to retiring employees of 25% of their unused accumulated sick leave as of the date of retirement, using the employee's effective daily rate of pay at retirement, not to exceed 30 days.

The ESC paid a former employee, Marsha Keefer, a severance payout consisting of her unused accumulated sick leave balance as of February 3, 2010.

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)

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

FINDING NUMBER 2010-001 (Continued)

Finding for Recovery –Repaid Under Audit- Material Non-Compliance (Continued)

However, due to an error in the calculation of the severance payout the ESC paid Ms. Keefer for 100% of her accrued days, instead of the 25% provided for under the severance policy. This resulted in an overpayment to Ms. Keefer of \$8,215.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is issued against Marsha Keefer for \$8,215 and in favor of the Educational Service Center of Central Ohio's General Fund.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. *Village of Linndale v. Masten*, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

Accordingly, the ESC Treasurer, Alan Hutchinson, and Traveler's Casualty and Surety Company of America, his surety, are jointly and severally liable in the amount of \$8,215 and in favor of the Educational Service Center of Central Ohio's General Fund.

On May 31, 2011, Ms. Keefer, repaid the ESC the full amount of \$8,215.

Officials Response:

Ms. Keefer has repaid the amount of the overpayment.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Finding Number	2010-002
CFDA Title and Number	84.027 Title VI-B – Special Education Grants to States
Federal Award Number / Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Special Education Grant – Material Weakness/Material Non-Compliance/Questioned Cost Allowable Costs, Cash Management, and Period of Availability

2 C.F.R. Part 225, Appendix A Section C3 states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Further, 2 C.F.R. Part 225, Appendix A Section C1 lists the factors affecting allowability of costs. To be allowable under Federal awards, costs must be adequately documented and not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period.

34 C.F.R. 80.21(c) prescribes the basic standards and methods under which a federal agency will make payments to grantees, and grantees will make payments to sub-grantees and contractors, and provides in part, that grantees shall be paid in advance, provided they have procedures in place to minimize the time elapsing between the transfer of funds and their disbursement by the grantee. The Ohio Department of Education prescribes a time period of 30 days in which its sub-grantees must fully expend each advance of federal funds.

34 CFR 74.28 states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Secretary and according to Common Rule A-102, the entity shall liquidate all obligation incurred under the award not later than 90 days after the end of the funding period.

Ohio Rev. Code Section 3323.31 became effective September 22, 2008, requiring the ESC to assume responsibilities of administering the activities of the Ohio Center for Autism and Low Incidence Disabilities (OCALI); formerly, the Ohio Department of Education (ODE) administered OCALI's activities, and provided federal Title VI-B funding to subsidize the operation of OCALI. The project period was July 1, 2007 through September 30, 2008, and an extension was granted to fund these activities through December 31, 2008.

At the end of the project period, when the ESC had fulfilled its obligations under the project, the remaining fund balance of \$1,045,997 was moved from its Special Education Fund to its General Fund. This amount consisted of a \$421,997 contract and \$624,000 of federal funding. Because ODE had made the determination that the \$624,000 portion of the project was a grant award and the ESC viewed the entire remaining fund balance of \$1,045,997 as a contract (and therefore not subject to federal requirements enumerated above) we noted the following non-compliance with federal requirements:

- Allowable Costs - The ESC had no documentation for \$624,000 of services that were provided by the General Fund for OCALI to justify the payment of these federal grant monies from its Title VI-B Fund to its General Fund.
- Period of Availability – The ESC moved the \$624,000 to its General Fund on June 30, 2010, after the end of the project period of December 31, 2008.

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2010-002 (Continued)
-----------------------	----------------------

Special Education Grant – Material Weakness/Material Non-Compliance/Questioned Cost Allowable Costs, Cash Management, and Period of Availability (Continued)

- Cash Management – \$561,600 of the \$624,000 grant was received in July 2009, but was not expended (moved to the General Fund) until June 30, 2010.

As a result, questioned costs for federal funds are \$624,000, or 17.5% of total 2010 Title VI-B expenditures.

The ESC has consulted with ODE regarding this matter and ODE has indicated that in spite of the above non-compliance, because of the differing interpretations of this funding ODE will not require the ESC to repay any of this funding.

We recommend the ESC ensure there is proper understanding of the nature of funding at each project's inception. The ESC should also consider separate tracking of financial activity for OCALI activities, regardless of whether funding is by contract or grant or any other funding source; this would facilitate the ESC's ability to demonstrate that all expenditures are properly supported and meet the federal requirements enumerated above.

Officials' Response and Corrective Action Plan:

We currently track and have tracked the activity for OCALI grants separate from other OCALI activities as recommended above. However, as stated above, the issue came about during the transitioning of the responsibilities between ODE and the ESC for administration of the OCALI operations. Furthermore, as stated above, we subsequently have received notification from ODE that states that "Upon review of our documentation, the ESC satisfied all requirements under the terms and conditions of the award, and no refund is due to ODE."

Anticipated Completion Date: March 31, 2011
Responsible Contact: Alan Hutchinson, Treasurer



Dave Yost • Auditor of State

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

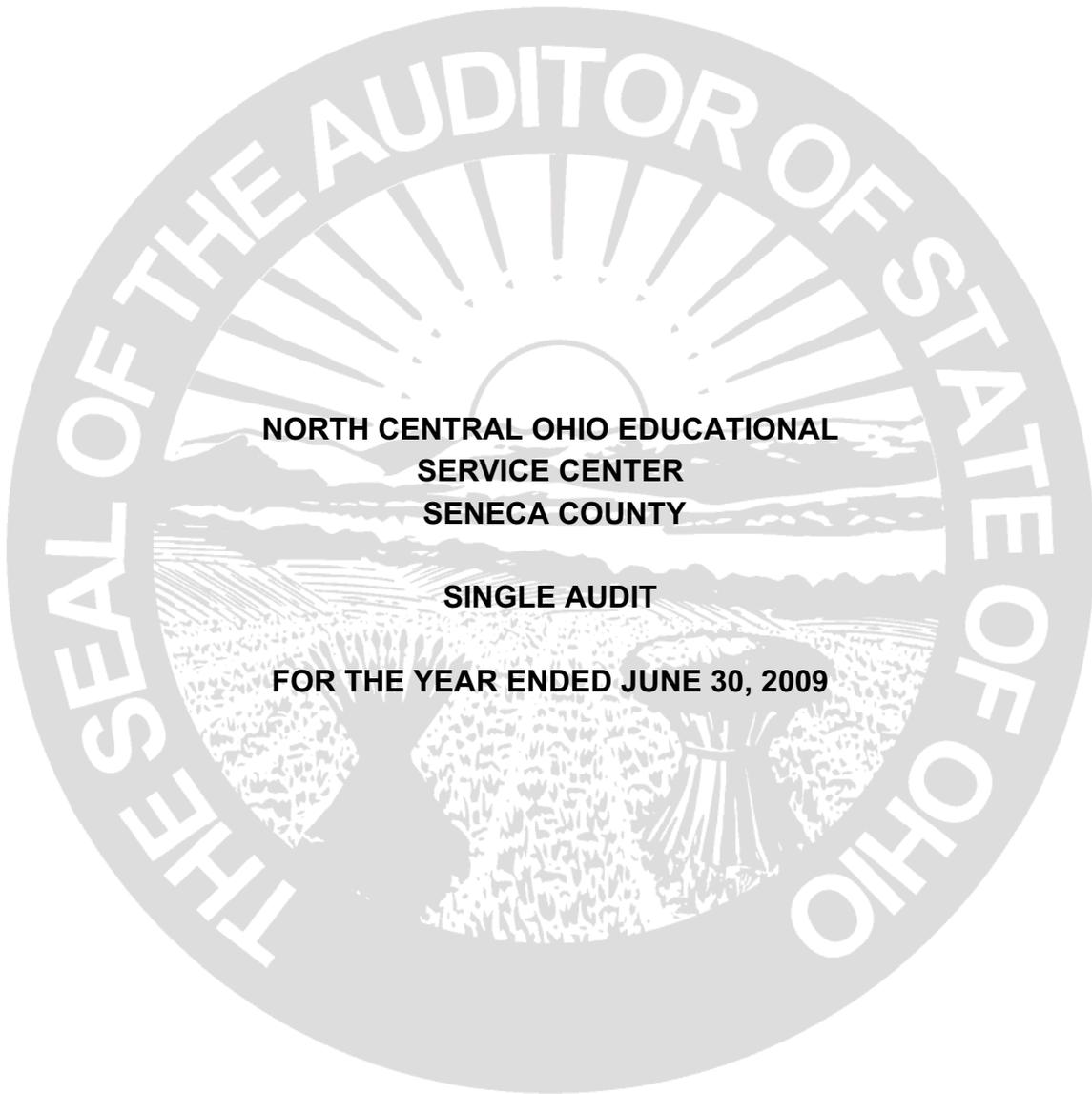
This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 16, 2011

Three Year Financial History: North Central Ohio Educational Service Center



**NORTH CENTRAL OHIO EDUCATIONAL
SERVICE CENTER
SENECA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2009



Mary Taylor, CPA
Auditor of State

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

North Central Ohio Educational Service Center
Seneca County
65 Saint Francis Avenue
Tiffin, Ohio 44883-3413

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 the North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC) as of and for the year ended June 30, 2009, which collectively comprise the ESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ESC'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 the North Central Ohio Educational Service Center, Seneca County, Ohio, as of June 30, 2009, and the respective changes in financial position there-of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2010, on our consideration of the ESC'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.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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

We conducted our audit to opine on the financial statements that collectively comprise the ESC's basic financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual provides additional information and is not a required part of the basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual and the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

January 13, 2010

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED

The management's discussion and analysis of the North Central Ohio Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for 2009 are as follows:

- In total, net assets of governmental activities increased \$491,892 which represents a 539.01% increase from 2008.
- General revenues accounted for \$3,499,224 in revenue or 20.54% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$13,534,089 or 79.46% of total revenues of \$17,033,313.
- The ESC had \$16,541,421 in expenses related to governmental activities; \$13,534,089 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$3,499,224 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$14,224,867 in revenues and \$13,678,518 in expenditures and other financing uses. During fiscal year 2009, the general fund's fund balance increased \$546,349 from a deficit of \$33,890 to a balance of \$512,459.

Using these Basic Financial Statements

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

The statement of net assets and statement of activities provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2009?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED

accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the ESC as a whole, the financial position of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the ESC's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental fund begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's only major governmental fund is the general fund.

Governmental Funds

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

Reporting the ESC's Fiduciary Responsibilities

The ESC is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The ESC also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED

The ESC as a Whole

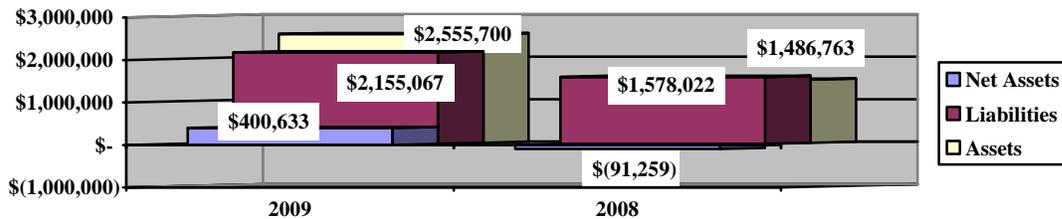
Recall that the statement of net assets provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net assets for 2009 and 2008.

	Net Assets	
	Governmental Activities 2009	Governmental Activities 2008
<u>Assets</u>		
Current assets	\$ 2,335,346	\$ 1,264,702
Capital assets, net	<u>220,354</u>	<u>222,061</u>
Total assets	<u>2,555,700</u>	<u>1,486,763</u>
<u>Liabilities</u>		
Current liabilities	1,583,945	1,093,621
Long-term liabilities	<u>571,122</u>	<u>484,401</u>
Total liabilities	<u>2,155,067</u>	<u>1,578,022</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	220,354	222,061
Restricted	200,382	146,700
Unrestricted (deficit)	<u>(20,103)</u>	<u>(460,020)</u>
Total net assets (deficit)	<u>\$ 400,633</u>	<u>\$ (91,259)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the ESC's assets exceeded liabilities by \$400,633. Of this total, \$200,382 is restricted in use leaving the ESC with unrestricted net assets of a deficit of \$20,103.

Governmental Activities



The table below shows the change in net assets for fiscal years 2009 and 2008. For fiscal year 2008, the intergovernmental pass-thru expense line has been eliminated and allocated back to its original function expense codes to be consistent with fiscal year 2009.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED

	Change in Net Assets	
	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 10,734,808	\$ 7,203,626
Operating grants and contributions	2,799,281	1,924,068
General revenues:		
Grants and entitlements, unrestricted	3,201,902	2,320,538
Investment earnings	13,905	35,351
Other	<u>283,417</u>	<u>715,824</u>
Total revenues	<u>17,033,313</u>	<u>12,199,407</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	605,980	373,882
Special	5,130,860	3,559,059
Support services:		
Pupil	3,358,773	2,281,484
Instructional staff	3,570,424	2,963,303
Board of education	51,627	55,771
Administration	1,818,242	1,404,132
Fiscal	597,552	533,466
Business	133,338	76,115
Operations and maintenance	491,855	462,324
Pupil transportation	126,899	35,065
Central	548,198	451,744
Operations of non-instructional services:		
Food service operations	23,082	20,971
Other non-instructional services	<u>84,591</u>	<u>64,386</u>
Total expenses	<u>16,541,421</u>	<u>12,281,702</u>
Change in net assets	491,892	(82,295)
Net assets (deficit) at beginning of year	<u>(91,259)</u>	<u>(8,964)</u>
Net assets (deficit) at end of year	<u>\$ 400,633</u>	<u>\$ (91,259)</u>

Governmental Activities

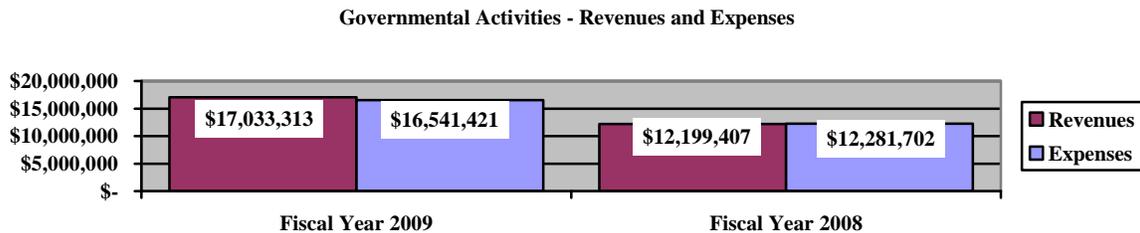
Net assets of the ESC's governmental activities increased \$491,892. Total governmental expenses of \$16,541,421 were offset by program revenues of \$13,534,089 and general revenues of \$3,499,224. Program revenues supported 81.82% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from contract services and charges for services. These revenue sources represent 63.02% of total governmental revenue.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED

The largest expense of the ESC is for support services. Support services expenses totaled \$10,696,908 or 64.67% of total governmental expenses for fiscal 2009.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2009 and 2008.



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements, and other general revenues not restricted to a specific program. For fiscal year 2008, the intergovernmental pass-thru expense line has been eliminated and allocated back to its original function expense codes to be consistent with fiscal year 2009.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED**

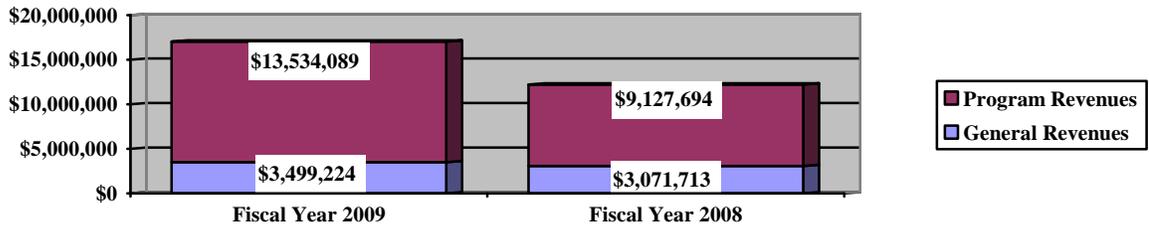
Governmental Activities

	Total Cost of Services 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
Program expenses				
Instruction:				
Regular	\$ 605,980	\$ 39,993	\$ 373,882	\$ 263,680
Special	5,130,860	1,083,022	3,559,059	646,509
Support services:				
Pupil	3,358,773	693,880	2,281,484	417,933
Instructional staff	3,570,424	379,042	2,963,303	273,821
Board of education	51,627	51,627	55,771	55,771
Administration	1,818,242	186,928	1,404,132	94,575
Fiscal	597,552	99,718	533,466	438,792
Business	133,338	98,022	76,115	76,115
Operations and maintenance	491,855	87,448	462,324	396,709
Pupil transportation	126,899	74,267	35,065	19,056
Central	548,198	126,679	451,744	409,129
Operations of non-instructional services:				
Food service operations	23,082	2,115	20,971	(2,468)
Other non-instructional services	84,591	84,591	64,386	64,386
Total expenses	\$ 16,541,421	\$ 3,007,332	\$ 12,281,702	\$ 3,154,008

For all governmental activities, program revenue support is 81.82%. The primary support for the ESC is contracted fees for services provided to other districts.

The graph below presents the ESC's governmental activities revenue for fiscal year 2009 and 2008.

Governmental Activities - General and Program Revenues



**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED

The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$691,795, which is higher than last year's total of \$115,603. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2009 and 2008.

	Fund Balance June 30, 2009	Fund Balance (deficit) June 30, 2008	Increase	Percentage Change
General	\$ 512,459	\$ (33,890)	\$ 546,349	1,612.12 %
Other Governmental	<u>179,336</u>	<u>149,493</u>	<u>29,843</u>	19.96 %
Total	<u>\$ 691,795</u>	<u>\$ 115,603</u>	<u>\$ 576,192</u>	498.42 %

General Fund

The ESC's general fund balance increased by \$546,349. The increase in fund balance can be attributed to the ESC providing new services, servicing new school districts, and expanding existing programs. Revenues exceeded expenditures in fiscal year 2009 by \$554,997. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2009 Amount	2008 Amount	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Contract services	\$ 3,956,242	\$ 3,352,889	\$ 603,353	18.00 %
Earnings on investments	13,905	35,351	(21,446)	(60.67) %
Tuition	6,104,965	3,567,093	2,537,872	71.15 %
Intergovernmental	3,201,902	2,320,538	881,364	37.98 %
Other revenues	<u>947,853</u>	<u>770,655</u>	<u>177,198</u>	22.99 %
Total	<u>\$ 14,224,867</u>	<u>\$10,046,526</u>	<u>\$ 4,178,341</u>	41.59 %
<u>Expenditures</u>				
Instruction	\$ 5,542,618	\$ 3,817,865	\$ 1,724,753	45.18 %
Support services	8,042,661	6,260,749	1,781,912	28.46 %
Non-instructional services	<u>84,591</u>	<u>64,386</u>	<u>20,205</u>	31.38 %
Total	<u>\$ 13,669,870</u>	<u>\$10,143,000</u>	<u>\$ 3,526,870</u>	34.77 %

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED

The increase in contract services and tuition revenue of \$603,353 and \$2,537,872 can be attributed to additional services provided to Fremont, Gibsonburg, and Clyde-Green Springs Districts. From fiscal year 2008, contracts with these districts, as well as other consortium districts, increased by \$2,591,097. In addition, the ESC provided new services such as adapted physical education and alternative education (both long and short term) as well as expanding other programs such as educational consultants, LEARNco, physical therapy, occupational therapy, psychology, literacy, and technology. Intergovernmental revenue increased 37.98% primarily due to the ESC receiving additional State funding for Fremont CSD, Gibsonburg EVSD, and Clyde-Green Springs Districts that joined the consortium in August 2008. Earnings on investments decreased mainly due to lower interest rates paid on investments. Instructional and support services expenditures increased \$1,724,753 and \$1,781,912 from fiscal year 2008. These increases can be attributed to the employment of additional contracted personnel for services listed above.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2009, the ESC had \$220,354 invested in furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2009 balances compared to 2008:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2009	2008
Furniture and equipment	<u>\$ 220,354</u>	<u>\$ 222,061</u>

The overall decrease in capital assets of \$1,707 is due to depreciation of \$67,699 and disposals net of accumulated depreciation of \$21,670 exceeding capital outlays of \$87,662 in the fiscal year.

Debt Administration

At June 30, 2009, the ESC had no debt outstanding.

Current Financial Related Activities

Fiscal year 2009, much like previous fiscal years, brought major changes in personnel and programs to the educational service center (ESC). The most significant change came with the dissolution of the Sandusky County Educational Service Center (SCESC). Through a series of discussions and meetings a significant amount of business was transferred to the ESC. Fremont City Schools, Clyde-Green Spring Exempted Village Schools, and Gibsonburg Exempted Village School all agreed to have the ESC be the fiscal agent for SB140 monies. In addition to the handling of the 140 monies, approximately eight early childhood units were transferred. Further, due to the increase of services needed for the three districts, the ESC opened a new office in Fremont and employed more than 125 people. This generated significant revenues as our need for the capacity to serve also increased. Further, several grants were also transferred to the ESC such as Parent Mentor grant and an Alternate Learning Challenge (ALC) grant.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
UNAUDITED**

In addition, new services, such as, hearing, vision, adapted physical education, and bus aides. Services were also expanded for gifted, multiple handicapped, paraprofessionals, preschool, psychology, and speech. These new and expanded services along with additional SB140 monies generated approximately \$4 million in revenues while expenditures for instruction and support services increased \$3 million.

In previous years the ESC received funds from the Community Alternative Funding System (CAFS) program. During fiscal years 2008 and 2007, no funds were received which resulted in reduction of Federal revenue. The Ohio Department of Education and the Ohio Department of Job and Family Services have developed, submitted and received approval of a plan that will allow school districts in Ohio to once again start receiving federal matching funds for services provided to Medicaid eligible students. The new Ohio Medicaid School Program (OMSP) will permit certain local educational agencies to receive federal matching Medicaid funds for services provided by licensed practitioners to Medicaid-eligible students. Several changes have been incorporated in the plan that will significantly impact educational service centers in Ohio. The most significant factor is educational service centers are no longer permitted to submit claims for direct reimbursement. Instead, ESCs may contract with districts to provide documentation collection and submission services to the district and invoice districts for the service. The ESC will not receive the full reimbursement as in the past. Invoicing the districts for services may result in ESCs receiving about 50% of the Medicaid reimbursement funds. Additionally, Medicaid has reduced the reimbursement rates for many services. The new rate is estimated to be about 60% of the reimbursement rate of other years. With this combination of factors, the ESC will experience a much reduced Medicaid funding source from years prior to July 1, 2005.

In fiscal 2008, the ESC was notified by the Ohio Department of Education of a reduction of 9.62% in the state per-pupil annual funding. The cut was based upon the district ADM counts as of the February 2008 number two foundation payment. In May 2008, the NCOESC Board of Governors voted to increase the agency fee charged on all program costs from 4% to 5% effective July 1, 2008. The estimated additional revenue to be generated was considerably short of the current fiscal year revenue loss. Additionally, the ESC allocated a portion of the facilities rent back through program costs. As a result, the additional 1% and the facilities rent allocation replaced most of the fiscal year 2009 State funding cut. This direct cut in State foundation revenue continues.

Finally, the ESC became the sponsor of a community school called the North Central Academy (NCA) on July 1, 2009. The North Central Academy serves schools in Seneca, Wyandot and Sandusky County. Once again, our capacity increased and the growth of the ESC continues.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Rhonda Feasel, Treasurer, North Central Ohio Educational Service Center, 65 Saint Francis Ave., Tiffin, Ohio 44883-3413.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,791,757
Cash with fiscal agent.	37,449
Receivables:	
Intergovernmental	472,657
Prepayments	33,483
Capital assets:	
Depreciable capital assets, net	220,354
 Total assets.	 2,555,700
Liabilities:	
Accounts payable.	80,898
Accrued wages and benefits	1,122,346
Pension obligation payable.	200,122
Intergovernmental payable	179,979
Unearned revenue	600
Long-term liabilities:	
Due within one year.	98,742
Due within more than one year	472,380
 Total liabilities	 2,155,067
Net Assets:	
Invested in capital assets.	220,354
Restricted for:	
Locally funded programs	107,174
State funded programs.	3,025
Federally funded programs.	88,639
Other purposes	1,544
Unrestricted (deficit)	(20,103)
 Total net assets	 \$ 400,633

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 605,980	\$ 428,249	\$ 137,738	\$ (39,993)
Special	5,130,860	4,011,702	36,136	(1,083,022)
Support services:				
Pupil.	3,358,773	2,642,991	21,902	(693,880)
Instructional staff	3,570,424	1,668,268	1,523,114	(379,042)
Board of education	51,627			(51,627)
Administration.	1,818,242	837,042	794,272	(186,928)
Fiscal.	597,552	403,480	94,354	(99,718)
Business.	133,338		35,316	(98,022)
Operations and maintenance	491,855	338,505	65,902	(87,448)
Pupil transportation.	126,899		52,632	(74,267)
Central	548,198	394,212	27,307	(126,679)
Operation of non-instructional services:				
Food service operations	23,082	10,359	10,608	(2,115)
Other non-instructional services	84,591			(84,591)
Total governmental activities	\$ 16,541,421	\$ 10,734,808	\$ 2,799,281	(3,007,332)

General Revenues:

Grants and entitlements not restricted to specific programs.	3,201,902
Investment earnings	13,905
Miscellaneous	283,417
Total general revenues.	3,499,224
Change in net assets	491,892
Net assets (deficit) at beginning of year	(91,259)
Net assets at end of year	\$ 400,633

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,640,753	\$ 151,004	\$ 1,791,757
Cash with fiscal agent	37,449		37,449
Receivables:			
Intergovernmental	225,780	246,877	472,657
Interfund loans	951		951
Prepayments	25,495	7,988	33,483
Total assets	<u>\$ 1,930,428</u>	<u>\$ 405,869</u>	<u>\$ 2,336,297</u>
Liabilities:			
Accounts payable	\$ 36,746	\$ 44,152	\$ 80,898
Accrued wages and benefits	1,099,076	23,270	1,122,346
Pension obligation payable	193,939	6,183	200,122
Intergovernmental payable	70,929	109,050	179,979
Interfund loans payable		951	951
Deferred revenue	16,679	42,927	59,606
Unearned revenue	600		600
Total liabilities	<u>1,417,969</u>	<u>226,533</u>	<u>1,644,502</u>
Fund Balances:			
Reserved for encumbrances	15,600	64,811	80,411
Reserved for prepayments	25,495	7,988	33,483
Unreserved, undesignated, reported in:			
General fund	471,364		471,364
Special revenue funds		106,537	106,537
Total fund balances	<u>512,459</u>	<u>179,336</u>	<u>691,795</u>
Total liabilities and fund balances	<u>\$ 1,930,428</u>	<u>\$ 405,869</u>	<u>\$ 2,336,297</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Total governmental fund balances		\$	691,795
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			220,354
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Contract service receivable	\$	9,965	
Other receivable		6,714	
Intergovernmental receivable		<u>42,927</u>	
Total			59,606
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		<u>(571,122)</u>	
Total			<u>(571,122)</u>
Net assets of governmental activities		<u>\$</u>	<u>400,633</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Charges for services		\$ 2,849	\$ 2,849
Earnings on investments.	\$ 13,905		13,905
Tuition.	6,104,965		6,104,965
Classroom materials and fees	50,812		50,812
Contributions and donations	8,459	11,457	19,916
Other local revenues.	888,582	64,380	952,962
Contract service revenue	3,956,242	37,605	3,993,847
Intergovernmental - State.	3,163,800	1,086,874	4,250,674
Intergovernmental - Federal	38,102	1,601,153	1,639,255
Total revenue	<u>14,224,867</u>	<u>2,804,318</u>	<u>17,029,185</u>
Expenditures:			
Current:			
Instruction:			
Regular	468,496	139,322	607,818
Special.	5,074,122	35,386	5,109,508
Support services:			
Pupil.	3,307,070	21,754	3,328,824
Instructional staff	2,072,151	1,456,303	3,528,454
Board of education	49,627	2,000	51,627
Administration.	1,029,858	798,814	1,828,672
Fiscal	502,577	93,531	596,108
Business	98,132	35,036	133,168
Operations and maintenance.	423,558	63,531	487,089
Pupil transportation	74,467	52,432	126,899
Central.	485,221	61,932	547,153
Operation of non-instructional services:			
Food service operations		23,082	23,082
Other non-instructional services.	84,591		84,591
Total expenditures	<u>13,669,870</u>	<u>2,783,123</u>	<u>16,452,993</u>
Excess of revenues over expenditures	<u>554,997</u>	<u>21,195</u>	<u>576,192</u>
Other financing sources (uses):			
Transfers in		8,648	8,648
Transfers (out).	(8,648)		(8,648)
Total other financing sources (uses)	<u>(8,648)</u>	<u>8,648</u>	
Net change in fund balances	546,349	29,843	576,192
Fund balances (deficit) at beginning of year	<u>(33,890)</u>	<u>149,493</u>	<u>115,603</u>
Fund balances at end of year	<u>\$ 512,459</u>	<u>\$ 179,336</u>	<u>\$ 691,795</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds \$ 576,192

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

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

Capital asset additions	\$	87,662	
Current year depreciation		<u>(67,699)</u>	
 Total			 19,963

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (21,670)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 4,128

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (86,721)

Change in net assets of governmental activities \$ 491,892

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$2,500	\$208,063
Prepayments.		\$2,825
Receivables:		
Intergovernmental		\$13,874
Total assets.	\$2,500	\$224,762
Liabilities:		
Accounts payable.		\$7,386
Pension obligation payable		\$1,772
Intergovernmental payable		\$215,604
Total liabilities		\$224,762
Net Assets:		
Held in trust for scholarships	\$2,500	
Total net assets	\$2,500	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions	\$ 7,037
Total additions.	7,037
Deductions:	
Scholarships awarded	6,115
Change in net assets	922
Net assets at beginning of year	1,578
Net assets at end of year.	\$ 2,500

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The North Central Ohio Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is a County Board of Education as defined by Section 3311.03 of the Ohio Revised Code. The ESC operates under an elected Board (7 members) and is an administrative entity providing supervision and various other services to the school districts located in Marion, Sandusky, Seneca and Wyandot Counties. The Board is its own fiscal agent and issues its own financial statements. The ESC serves as fiscal agent for the Seneca County Family and Children First Council (the "Council") with the rights and responsibilities established by Section 121.37 of the Ohio Revised Code. Council funds are maintained in a separate agency fund by the ESC.

The ESC provides regular and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services and facilities acquisitions. The ESC is staffed by 158 non-certified employees and 151 certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations, food service and student related activities of the ESC.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's Governing Board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the ESC has no

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government).

The following organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 area school districts and service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and service centers. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating service center and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating districts are located. Each district's authority is limited to its representation on the Board. Financial information can be obtained by contacting Betty Schwiefert, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Marion Area Partners in Education (the "Council")

The Council was established in accordance with Ohio Revised Code Section 3301.74. The purpose of the Council shall be to provide insight, generate suggestions and to promote a positive relationship between the school and the community it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within our financial means in order that conscientious students may enter the work force with the knowledge, skills and attitudes that are at a level which makes initial employment feasible and additional training both productive and economical.

The membership may be selected from the fields of commercial, industrial service, agricultural and governmental agencies. Consideration may also be given to a citizen representative (one) from each of the local districts. Each local superintendent may also serve as an "ex officio" member.

PUBLIC ENTITY RISK POOLS

North Central Ohio Joint Self-Insurance Association (the "Association")

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, five school districts - Old Fort, Bettsville, Seneca East, Mohawk and New Riegel and one city school, Tiffin. The Association was established pursuant to Section 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the school districts, the North Central Ohio Educational Service Center and the Sandusky County Educational Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association, but their financial statements are not reported with the ESC's financial statements.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers'

Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

B. Fund Accounting

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the ESC's major governmental 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 for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the ESC are used to account for (a) for grants and other resources whose use is restricted to a particular purpose; or (b) for food service operations.

PROPRIETARY FUND

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

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 ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the ESC are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on 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 statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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. Fiduciary funds also use the accrual basis of accounting.

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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the ESC, available means expected to be received within thirty days of fiscal year end.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

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 year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a 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 to be both measurable and available at fiscal year end: donations, interest, tuition, grants, entitlements and contract services.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. 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 have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Cash and Investments

To improve cash management, cash received by the ESC is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2009, investments were limited to State Treasury Asset Reserve of Ohio (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

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2009.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2009 amounted to \$13,905, which includes \$3,468 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the ESC's investment account at year end is provided in Note 4.

F. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC maintains a capitalization threshold of \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The ESC does not possess infrastructure.

All reported 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Furniture and equipment	5 - 20 years

G. Interfund Balances

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

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

H. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2009, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of service, including three with the ESC were considered expected to become eligible to retire in accordance with GASB Statement No. 16 (See Note 9 for detail on compensated absences).

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2009 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

I. Accrued Liabilities and Long-Term Obligations

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Fund Balance Reserves

The ESC reserves those 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 encumbrances and prepayments.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes includes amounts restricted for food service operations.

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

L. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

M. Estimates

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

N. Interfund Activity

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2009.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2009, the ESC has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the ESC.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the ESC.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the ESC.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2009 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Education foundation	\$ 119
Teacher development	484
Alternative school	1,199
Title I	60

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the ESC 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 ESC treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the ESC'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.

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 ESC, 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash with Fiscal Agent

The ESC had cash held by the Ohio Mid-Eastern Regional Education Service Agency, which included on the financial statements as "cash with fiscal agent". The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2009 was \$37,449.

B. Deposits with Financial Institutions

At June 30, 2009, the carrying amount of all ESC deposits was \$114,861. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2009, \$622,987 of the ESC's bank balance of \$872,987 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the ESC's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory

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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

C. Investments

As of June 30, 2009, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ <u>1,887,459</u>	\$ <u>1,887,459</u>

Interest Rate Risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the ESC's investment policy limits investment portfolio maturities to five years or less.

Credit Risk is the possibility that an issuer or other counter party to an investment will not fulfill its obligation. The ESC's investments in STAR Ohio were assigned an AAAM money market rating by Standard & Poor's.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ <u>1,887,459</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2009:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 114,861
Investments	1,887,459
Cash with fiscal agent	<u>37,449</u>
Total	<u>\$ 2,039,769</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,829,206
Private-purpose trust funds	2,500
Agency funds	<u>208,063</u>
Total	<u>\$ 2,039,769</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2009, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:

General fund	\$ 8,648
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Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- B.** Interfund balances at June 30, 2009 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 951

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - RECEIVABLES

Receivables at June 30, 2009 consisted of intergovernmental grants and entitlements. 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 receivables reported on the statement of net assets follows:

Governmental activities:

Intergovernmental \$ 472,657

All receivables are expected to be collected within the subsequent year.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance <u>06/30/08</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>06/30/09</u>
Governmental activities:				
Furniture and equipment	\$ 572,174	\$ 87,662	\$ (54,314)	\$ 605,522
Total capital assets, being depreciated	<u>572,174</u>	<u>87,662</u>	<u>(54,314)</u>	<u>605,522</u>
<i>Less: accumulated depreciation</i>				
Furniture and equipment	<u>(350,113)</u>	<u>(67,699)</u>	<u>32,644</u>	<u>(385,168)</u>
Total accumulated depreciation	<u>(350,113)</u>	<u>(67,699)</u>	<u>32,644</u>	<u>(385,168)</u>
Governmental activities capital assets, net	<u>\$ 222,061</u>	<u>\$ 19,963</u>	<u>\$ (21,670)</u>	<u>\$ 220,354</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 3,567
Special 970

Support services:

Pupil 1,646
Instructional staff 9,716
Administration 18,384
Fiscal 2,555
Business 129
Operations and maintenance 7,316
Central 23,416

Total depreciation expense \$ 67,699

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - LONG-TERM OBLIGATIONS

During the fiscal year 2009, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/08</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/09</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Compensated absences payable	\$ 484,401	\$ 180,048	\$ (93,327)	\$ 571,122	\$ 98,742

Compensated absences will ultimately be paid from the fund from which the employee is paid, which is primarily the general fund.

NOTE 9 - COMPENSATED ABSENCES

Sick Leave:

Each full time professional staff member is entitled to 15 days sick leave with pay for each year under contract and accrues sick leave at the rate of one and one-fourth days for each calendar month under contract. Sick leave is cumulative to 200 days.

Severance Pay:

At the time of retirement from the ESC, a severance amount calculated by a prescribed formula applied to the employee's unused sick leave and daily rate of pay at the time of retirement from the ESC is granted to employees in compliance with Ohio law. Upon payment of severance pay, the retiring employee's sick leave accumulation is reduced to zero.

Retirement

Severance pay is based on a one-time, lump sum payment to eligible employees. An employee's eligibility for severance pay is determined as of the final date of employment. The criteria are as follows:

1. The individual retires from the ESC.
2. Retirement is defined as disability retirement or service retirement under any State or municipal retirement system in this State.
3. The individual must be eligible for disability or service retirement as of the last date of employment with the ESC.
4. The individual must prove acceptance into the retirement system within 120 days of his/her last day of employment by having received and cashed his/her first retirement check.
5. The individual must have not less than 10 years of service with this ESC, the state or its political subdivisions, or any combination thereof. The last 3 years of employment must be with the ESC.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 9 - COMPENSATED ABSENCES - (Continued)

6. The individual must sign for his/her severance check certifying that all eligibility criteria have been met.

The amount of the benefit due an employee shall be calculated as follows:

1. The employee's accrued, but unused sick leave will be multiplied by one-fourth.
2. The product will be multiplied by the per diem rate of pay at the time of retirement.
3. Per diem of those administrators previously employed by the Seneca-Wyandot County Educational Service Center under 230 day contracts using 230 contract days.

The amount of the benefit calculated in steps one and two shall not exceed the value of 50 days of accrued, but unused sick leave.

Receipt of payment for accrued but unused sick leave eliminates all sick leave credit accrued by the employee.

The Board pays severance pay to the estate or life insurance beneficiary of an employee who qualifies for retirement and who dies while actively employed.

Upon retirement, employees are entitled to compensation at their current rate of pay for all unused vacation leave to their credit up to a maximum of their earned, but unused vacation leave for the current year. Per diem of those individuals previously employed by the Seneca-Wyandot County Board of Education under 230 day contracts shall be calculated using 230 contract days.

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The ESC 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. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Employee Health Insurance

The ESC is a member of the North Central Ohio Joint Self-Insurance Association (the "Association"). This organization is a public entity risk pool (see Note 2.A.). The Association was established pursuant to Ohio Revised Code Section 9.833 in order to provide health care benefits.

Each member school ESC and educational service center pays premiums to the Association for employee medical, dental, vision, and life insurance premiums. The Association is responsible for the management and operations of the program. Upon withdrawal, the member is responsible for the payment of all Association liabilities to its employees, dependents and designated beneficiaries accruing as a result of the withdrawal. Upon

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NOTE 10 - RISK MANAGEMENT – (Continued)

termination of the Association, all ESC's claims would be paid without regard to the ESC's account balance. The Association Board of Directors has the right to return monies to an exiting member subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school ESC's pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school ESC's is calculated as one experience and a common premium rate is applied to all school ESC's in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school ESC's that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements 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. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$269,273, \$189,791 and \$161,328, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 11 - PENSION PLANS – (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 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 (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or 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 DC Plan 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 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2009, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were \$914,357, \$724,074 and \$608,638, respectively;

100 percent has been contributed for fiscal years 2009, 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$3,337 made by the ESC and \$15,228 made by the plan members.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 11 - PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2009, certain members of the Board of Education have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated 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 obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each 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 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

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 ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009, 2008, and 2007 were \$149,627, \$110,929 and \$76,249, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$22,217, \$13,675 and \$10,970, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The ESC contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law 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 Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$70,335, \$55,698 and \$46,818, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

NOTE 13 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$40.52 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. However, due to State funding cuts the ESC was only funded \$36.62 per ADM.

If additional funding is required and if a majority of the Boards of Education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$47.02 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating Boards approve or disapprove the apportionment. The districts to which the ESC provides services have agreed to pay \$6.50 per pupil to provide additional funding for services provided by the ESC.

NOTE 14 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 14 – CONTINGENCIES – (Continued)

audits could become a liability of the ESC. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

B. Litigation

The ESC is involved in no material litigation as either plaintiff or defendant.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Earnings on investments	\$ 30,564	\$ 31,500	\$ 14,077	(17,423)
Tuition	5,944,461	6,126,412	6,104,965	(21,447)
Classroom materials and fees	55,841	57,550	50,862	(6,688)
Contributions and donations	6,792	7,000	8,459	1,459
Other local revenues	955,529	984,776	864,111	(120,665)
Contract service revenue	3,433,275	3,538,363	3,970,173	431,810
Intergovernmental - State	3,034,443	3,127,323	3,163,800	36,477
Intergovernmental - Federal	36,970	38,102	38,102	
Total revenue	<u>13,497,875</u>	<u>13,911,026</u>	<u>14,214,549</u>	<u>303,523</u>
Expenditures:				
Current:				
Instruction:				
Regular	445,273	458,889	452,251	6,638
Special	5,047,168	5,201,499	4,830,996	370,503
Support services:				
Pupil	3,380,945	3,484,327	3,201,400	282,927
Instructional staff	2,113,430	2,178,054	2,090,443	87,611
Board of education	57,919	59,690	56,629	3,061
Administration	1,025,375	1,056,729	1,022,717	34,012
Fiscal	503,104	518,488	505,167	13,321
Business	96,728	99,686	99,444	242
Operations and maintenance	437,175	450,543	425,972	24,571
Pupil transportation	96,886	99,849	71,908	27,941
Central	572,685	590,197	501,405	88,792
Operation of non-instructional services	84,837	87,431	79,045	8,386
Total expenditures	<u>13,861,525</u>	<u>14,285,382</u>	<u>13,337,377</u>	<u>948,005</u>
Excess of revenues over (under) expenditures	<u>(363,650)</u>	<u>(374,356)</u>	<u>877,172</u>	<u>1,251,528</u>
Other financing sources (uses):				
Refund of prior year expenditure	3,396	3,500		(3,500)
Contingencies	(30,861)	(31,805)		31,805
Transfers in	71,923	74,124	74,124	
Transfers (out)	(80,316)	(82,772)	(82,772)	
Advances in	387	399	399	
Advances (out)	(923)	(951)	(951)	
Insurance proceeds	40,753	42,000	42,000	
Total other financing sources (uses)	<u>4,359</u>	<u>4,495</u>	<u>32,800</u>	<u>28,305</u>
Net change in fund balance	(359,291)	(369,861)	909,972	1,279,833
Fund balance at beginning of year	640,327	640,327	640,327	
Prior year encumbrances appropriated	82,284	82,284	82,284	
Fund balance at end of year	<u>\$ 363,320</u>	<u>\$ 352,750</u>	<u>\$ 1,632,583</u>	<u>\$ 1,279,833</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY
NOTE TO THE SUPPLEMENTARY INFORMATION**

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

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department Of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Board approve appropriations and estimated resources. The ESC's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

While reporting financial position and changes in financial position/fund balance 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 and disbursements plus encumbrances.

The adjustments necessary to convert the results of operations for the fiscal year on the budget basis to the GAAP basis for the general fund are as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 909,972
Net adjustment for revenue accruals	10,318
Net adjustment for expenditure accruals	(378,282)
Net adjustment for other sources/(uses)	(41,448)
Adjustment for encumbrances	<u>45,789</u>
GAAP basis	<u>\$ 546,349</u>

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
National School Lunch Program	10.555	\$ 10,071	\$ 10,071
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
Special Education Cluster:			
Special Education Grants to States	84.027	1,153,904	1,164,381
Special Education Preschool Grant	84.173	125,064	125,280
Total Special Education Cluster		<u>1,278,968</u>	<u>1,289,661</u>
Title I Grants to Local Educational Agencies	84.010	18,839	18,839
Help Me Grow	84.181	57,114	57,114
LEP Title II	84.365	13,544	13,544
School Improvement Grant	84.377	<u>6,000</u>	<u>6,000</u>
Total U.S. Department of Education		<u>1,374,465</u>	<u>1,385,158</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<i>Passed Through Ohio Department of Developmental Disabilities:</i>			
Medical Assistance Program (CAFS)	93.778	<u>38,102</u>	
Total Federal Receipts and Expenditures		<u>\$ 1,422,638</u>	<u>\$ 1,395,229</u>

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2009**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the North Central Ohio Educational Service Center (the ESC's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B – NATIONAL SCHOOL LUNCH PROGRAM

Cash receipts from the U.S. Department of Agriculture are commingled with State grants and local receipts. It is assumed federal monies are expended first.

NOTE C – COMMUNITY ALTERNATIVE FUNDING SYSTEM (CAFS)

The Educational Service Center received \$38,102 of CAFS money during fiscal year 2009. These funds relate to settlements for CAFS services provided during prior years.



Mary Taylor, CPA

Auditor of State

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

North Central Ohio Educational Service Center
Seneca County
65 Saint Francis Avenue
Tiffin, Ohio 44883-3413

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the North Central Ohio Educational Service Center, Seneca County, (the ESC) as of and for the year ended June 30, 2009, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated January 13, 2010. 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 ESC's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the ESC's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the ESC's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ESC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the ESC's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the ESC's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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 ESC'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*.

We intend this report solely for the information and use of the audit committee, management, the Governing Board, federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 13, 2010



Mary Taylor, CPA

Auditor of State

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

North Central Ohio Educational Service Center
Seneca County
65 Saint Francis Avenue
Tiffin, Ohio 44883-3413

To the Governing Board:

Compliance

We have audited the compliance of the North Central Ohio Educational Service Center, Seneca County, (the ESC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the ESC's major federal programs. The ESC's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the ESC's compliance based on our audit.

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

In our opinion, the North Central Ohio Educational Service Center complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The ESC's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the ESC's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the ESC's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ESC's ability to administer a federal program such that there is more than a remote likelihood that the ESC's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the ESC's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

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



Mary Taylor, CPA
Auditor of State

January 13, 2010

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2009**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA 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
FEBRUARY 2, 2010**



Dave Yost • Auditor of State

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

North Central Ohio Educational Service Center
Seneca County
65 Saint Francis Avenue
Tiffin, Ohio 44883-3413

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 North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC), as of and for the year ended June 30, 2010, which collectively comprise the ESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ESC'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 North Central Ohio Educational Service Center, Seneca County, Ohio, as of June 30, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2011, on our consideration of the ESC'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 ESC's basic financial statements taken as a whole. The schedule of revenue, expenditures and changes in fund balance – budget and actual provides additional information and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of revenue, expenditures and changes in fund balance – budget and actual and the federal awards receipts and expenditures schedule are management's responsibility, and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. These schedules were 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

March 9, 2011

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED

The management's discussion and analysis of the North Central Ohio Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- In total, net assets of governmental activities increased \$633,515 which represents a 158.13% increase from 2009. Increase due to an extraordinary item received. See Note 2.O.
- General revenues accounted for \$3,458,666 in revenue or 18.93% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$14,810,549 or 81.07% of total revenues of \$18,269,215.
- The ESC had \$17,826,417 in expenses related to governmental activities; \$14,810,549 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$3,458,666 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$16,263,388 in revenues, \$15,684,179 in expenditures and other financing uses and \$190,717 in extraordinary items. During fiscal year 2010, the general fund's fund balance increased \$769,926 from a balance of \$512,459 to a balance of \$1,282,385.

Using these Basic Financial Statements

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

The statement of net assets and statement of activities provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the ESC as a whole, the financial position of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the ESC's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental fund begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's only major governmental fund is the general fund.

Governmental Funds

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

Reporting the ESC's Fiduciary Responsibilities

The ESC is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The ESC also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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The ESC as a Whole

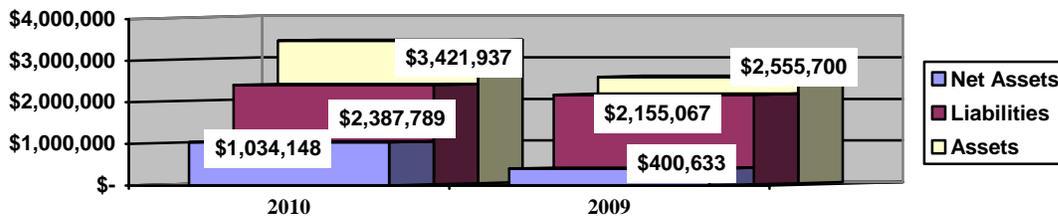
Recall that the statement of net assets provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net assets for 2010 and 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current assets	\$ 3,139,630	\$ 2,335,346
Capital assets, net	282,307	220,354
Total assets	3,421,937	2,555,700
<u>Liabilities</u>		
Current liabilities	1,647,975	1,583,945
Long-term liabilities	739,814	571,122
Total liabilities	2,387,789	2,155,067
<u>Net Assets</u>		
Invested in capital assets, net of related debt	282,307	220,354
Restricted	159,285	200,382
Unrestricted (deficit)	592,556	(20,103)
Total net assets	\$ 1,034,148	\$ 400,633

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the ESC's assets exceeded liabilities by \$1,034,148. Of this total, \$159,285 is restricted in use leaving the ESC with unrestricted net assets of \$592,556. The graph below illustrates the ESC's governmental activities assets, liabilities, and net assets for 2010 and 2009.

Governmental Activities



**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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The table below shows the change in net assets for fiscal years 2010 and 2009.

	Change in Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
	<u>2010</u>	<u>2009</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 12,875,804	\$ 10,734,808
Operating grants and contributions	1,934,745	2,799,281
General revenues:		
Grants and entitlements, unrestricted	3,145,738	3,201,902
Investment earnings	4,502	13,905
Other	308,426	283,417
Total revenues	<u>18,269,215</u>	<u>17,033,313</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	1,018,973	605,980
Special	5,326,874	5,130,860
Support services:		
Pupil	4,002,939	3,358,773
Instructional staff	3,347,353	3,570,424
Board of education	66,963	51,627
Administration	1,963,255	1,818,242
Fiscal	595,165	597,552
Business	114,677	133,338
Operations and maintenance	575,182	491,855
Pupil transportation	146,157	126,899
Central	529,212	548,198
Operations of non-instructional services:		
Food service operations	50,877	23,082
Other non-instructional services	88,790	84,591
Total expenses	<u>17,826,417</u>	<u>16,541,421</u>
<u>Extraordinary items</u>		
Settlement revenues	791,108	
Settlement payments	(600,391)	
Total extraordinary items	<u>190,717</u>	
Change in net assets	633,515	491,892
Net assets (deficit) at beginning of year	<u>400,633</u>	<u>(91,259)</u>
Net assets at end of year	<u>\$ 1,034,148</u>	<u>\$ 400,633</u>

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED

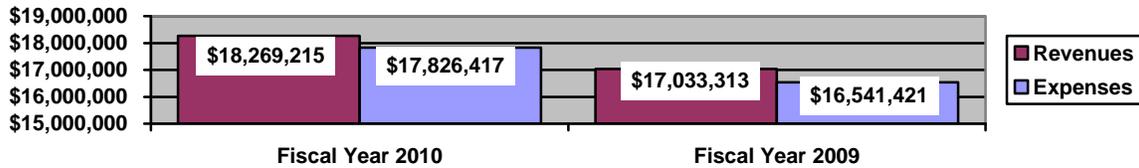
Governmental Activities

Net assets of the ESC's governmental activities increased \$633,515. Total governmental expenses of \$17,826,417 were offset by program revenues of \$14,810,549, general revenues of \$3,458,666 and extraordinary items of \$190,717. Program revenues supported 83.08% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from contract services and charges for services. These revenue sources represent 70.48% of total governmental revenue.

The largest expense of the ESC is for support services. Support services expenses totaled \$11,340,903 or 63.62% of total governmental expenses for fiscal 2010.

The graph below presents the ESC's governmental activities revenues and expenses for fiscal year 2010 and 2009.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements, and other general revenues not restricted to a specific program.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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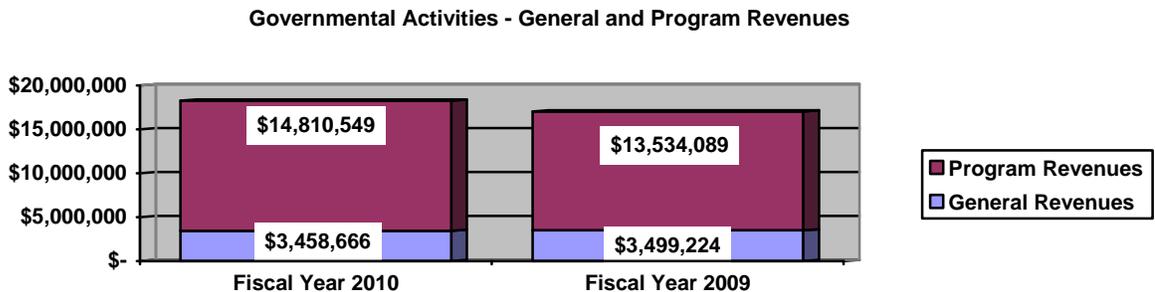
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses				
Instruction:				
Regular	\$ 1,018,973	\$ 41,077	\$ 605,980	\$ 39,993
Special	5,326,874	1,226,318	5,130,860	1,083,022
Support services:				
Pupil	4,002,939	759,154	3,358,773	693,880
Instructional staff	3,347,353	355,115	3,570,424	379,042
Board of education	66,963	66,834	51,627	51,627
Administration	1,963,255	202,456	1,818,242	186,928
Fiscal	595,165	57,373	597,552	99,718
Business	114,677	114,677	133,338	98,022
Operations and maintenance	575,182	38,143	491,855	87,448
Pupil transportation	146,157	91,995	126,899	74,267
Central	529,212	(7,804)	548,198	126,679
Operations of non-instructional services:				
Food service operations	50,877	674	23,082	2,115
Other non-instructional services	88,790	69,856	84,591	84,591
Total expenses	\$ 17,826,417	\$ 3,015,868	\$ 16,541,421	\$ 3,007,332

For all governmental activities, program revenue support is 83.08%. The primary support for the ESC is contracted fees for services provided to other districts.

The graph below presents the ESC's governmental activities revenues for fiscal year 2010 and 2009.



**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$1,359,758, which is higher than last year's total of \$691,795. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	<u>Fund Balance June 30, 2010</u>	<u>Fund Balance June 30, 2009</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
General	\$ 1,282,385	\$ 512,459	\$ 769,926	150.24 %
Other Governmental	<u>77,373</u>	<u>179,336</u>	<u>(101,963)</u>	(56.86) %
Total	<u>\$ 1,359,758</u>	<u>\$ 691,795</u>	<u>\$ 667,963</u>	96.56 %

General Fund

The ESC's general fund balance increased by \$769,926. The increase in fund balance can be attributed to the ESC providing new services, expanding on existing programs and extraordinary items resulting in \$190,717. Revenues exceeded expenditures in fiscal year 2010 by \$586,827. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
<u>Revenues</u>				
Contract services	\$ 3,620,149	\$ 3,956,242	\$ (336,093)	(8.50) %
Earnings on investments	4,502	13,905	(9,403)	(67.62) %
Tuition	8,582,644	6,104,965	2,477,679	40.58 %
Intergovernmental	3,145,738	3,201,902	(56,164)	(1.75) %
Other revenues	<u>910,355</u>	<u>947,853</u>	<u>(37,498)</u>	(3.96) %
Total	<u>\$ 16,263,388</u>	<u>\$ 14,224,867</u>	<u>\$ 2,038,521</u>	14.33 %
<u>Expenditures</u>				
Instruction	\$ 6,115,002	\$ 5,542,618	\$ 572,384	10.33 %
Support services	9,491,053	8,042,661	1,448,392	18.01 %
Non-instructional services	<u>70,506</u>	<u>84,591</u>	<u>(14,085)</u>	(16.65) %
Total	<u>\$ 15,676,561</u>	<u>\$ 13,669,870</u>	<u>\$ 2,006,691</u>	14.68 %

The increase in tuition revenue of \$2,477,679 is a result of the amount of services the ESC provides to local districts. This increase in revenue is a result in the amount of money districts have available to spend due to the additional funding available to local districts through the American Recovery Reinvestment Act. These revenues are in direct correlation with the increase in instruction and support services expenditures during the fiscal year. The ESC hired additional employees to fill a variety of positions such as teachers and aides. Interest revenue decreased \$9,403 or 67.62% due to the decline in interest rates. All other revenues and expenditures remain comparable to the prior year and need no further analysis.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the ESC had \$282,307 invested in furniture and equipment and software. This entire amount is reported in governmental activities. The following table shows 2010 balances compared to 2009.

**Capital Assets at June 30
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 233,139	\$ 220,354
Software	49,168	
Total	<u>\$ 282,307</u>	<u>\$ 220,354</u>

The overall increase in capital assets of \$61,953 is due to capital outlays of \$259,565 exceeding depreciation of \$105,150 and disposals net of accumulated depreciation of \$92,462 in the fiscal year.

Debt Administration

At June 30, 2010, the ESC had no debt outstanding.

Current Financial Related Activities

Fiscal year 2010, much like previous fiscal years, brought major changes in personnel and programs to the educational service center (ESC). The most significant change came with the sponsorship of a community school called the North Central Academy (NCA) on July 1, 2009. The North Central Academy serves students in grades 6-12 for Seneca, Wyandot, and Sandusky Counties. The ESC employed fifteen new staff members to serve NCA. NCA provides a viable educational program for at-risk youths and allows the NCOESC additional opportunities to provide needed services for students who may not receive these services in a traditional school setting. In addition, the ESC added or expanded the following programs at the requests of our school districts; autism, vision specialist, hearing specialist, interpreter, physical education aide, dean of students, and a student services coordinator.

The ESC relies heavily on contracts with local, city, and exempted village school districts in Seneca, Sandusky, Marion, Union, and Wyandot Counties. The ESC closely monitors changes in cash and determine cost cutting methods to preserve fund balance while maintaining a high quality of services. The ESC continues to explore alternative means to generate revenues by expanding service and reducing costs to our districts without sacrificing service.

The ESC is financial sound; however, fiscal year 2010 has its various challenges. There are many factors that are beyond the control of management which can impact the financial condition. School districts have experienced major changes in legislation, school funding initiatives, and local economic conditions, as well as, increased costs for health care.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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Furthermore, since fiscal year 1994 there have been no increases in funding from the State. In fiscal year 2008, the ESC was notified by the Ohio Department of Education of a reduction of 9.62% in the state per-pupil annual funding. The cut was based upon the district ADM counts as of the February 2008 number two foundation payment. This direct cut in State foundation revenue continues.

In order to continue to be financially stable, the ESC is preparing a forecast to assist with long term planning, provide opportunities to improve services, and identify potential financial issues that could impact the ESCs financial condition. While there are many factors that can impact the financial condition, the ESCs ultimate goal is to meet the needs of our educational partners through excellent service with cost effective cost strategies.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Rhonda Feasel, Treasurer, North Central Ohio Educational Service Center, 65 Saint Francis Ave., Tiffin, Ohio 44883-3413.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,517,369
Cash with fiscal agent	39,600
Receivables:	
Intergovernmental	540,721
Prepayments	41,940
Capital assets:	
Depreciable capital assets, net.	282,307
	3,421,937
Total assets.	3,421,937
Liabilities:	
Accounts payable.	81,872
Accrued wages and benefits	1,220,293
Pension obligation payable.	222,452
Intergovernmental payable	115,739
Unearned revenue	7,619
Long-term liabilities:	
Due within one year.	110,841
Due within more than one year	628,973
	2,387,789
Total liabilities	2,387,789
Net Assets:	
Invested in capital assets	282,307
Restricted for:	
Locally funded programs	84,646
Federally funded programs	71,182
Public school support	604
Other purposes	2,853
Unrestricted	592,556
	1,034,148
Total net assets	\$ 1,034,148

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 1,018,973	\$ 858,329	\$ 119,567	\$ (41,077)
Special	5,326,874	4,066,315	34,241	(1,226,318)
Support services:				
Pupil	4,002,939	3,221,168	22,617	(759,154)
Instructional staff	3,347,353	1,930,291	1,061,947	(355,115)
Board of education	66,963		129	(66,834)
Administration	1,963,255	1,356,068	404,731	(202,456)
Fiscal	595,165	465,649	72,143	(57,373)
Business	114,677			(114,677)
Operations and maintenance	575,182	447,173	89,866	(38,143)
Pupil transportation	146,157		54,162	(91,995)
Central	529,212	510,050	26,966	7,804
Operation of non-instructional services:				
Food service operations	50,877	20,761	29,442	(674)
Other non-instructional services	88,790		18,934	(69,856)
Total governmental activities	\$ 17,826,417	\$ 12,875,804	\$ 1,934,745	(3,015,868)
General Revenues:				
Grants and entitlements not restricted to specific programs				
				3,145,738
				4,502
				308,426
				3,458,666
Extraordinary items:				
				791,108
				(600,391)
				3,649,383
				633,515
				400,633
				\$ 1,034,148

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,386,895	\$ 130,474	\$ 2,517,369
Cash with fiscal agent	39,600		39,600
Receivables:			
Intergovernmental	372,103	168,618	540,721
Prepayments	33,571	8,369	41,940
Total assets	<u>\$ 2,832,169</u>	<u>\$ 307,461</u>	<u>\$ 3,139,630</u>
Liabilities:			
Accounts payable	\$ 26,689	\$ 55,183	\$ 81,872
Accrued wages and benefits	1,208,612	11,681	1,220,293
Compensated absences payable		14,370	14,370
Intergovernmental payable	89,008	26,731	115,739
Unearned revenue		7,619	7,619
Deferred revenue	14,106	103,421	117,527
Pension obligation payable	211,369	11,083	222,452
Total liabilities	<u>1,549,784</u>	<u>230,088</u>	<u>1,779,872</u>
Fund Balances:			
Reserved for encumbrances	55,415	172,378	227,793
Reserved for prepayments	33,571	8,369	41,940
Unreserved, undesignated (deficit), reported in:			
General fund	1,193,399		1,193,399
Special revenue funds		(103,374)	(103,374)
Total fund balances	<u>1,282,385</u>	<u>77,373</u>	<u>1,359,758</u>
Total liabilities and fund balances	<u>\$ 2,832,169</u>	<u>\$ 307,461</u>	<u>\$ 3,139,630</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances		\$ 1,359,758
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		282,307
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Contract service receivable	\$ 14,001	
Other receivable	3,680	
Intergovernmental receivable	99,671	
Tuition receivable	175	
	<hr/>	
Total		117,527
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(725,444)	
	<hr/>	
Total		<hr/> (725,444)
Net assets of governmental activities		<hr/> \$ 1,034,148 <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Charges for services		\$ 4,125	\$ 4,125
Earnings on investments	\$ 4,502		4,502
Tuition.	8,582,644		8,582,644
Classroom materials and fees	13,266		13,266
Contributions and donations	14,248	9,005	23,253
Contract services.	3,620,149	48,447	3,668,596
Other local revenues	882,841	17,333	900,174
Intergovernmental - intermediate	1,146		1,146
Intergovernmental - state	3,144,592	565,763	3,710,355
Intergovernmental - federal		1,303,233	1,303,233
Total revenues	<u>16,263,388</u>	<u>1,947,906</u>	<u>18,211,294</u>
Expenditures:			
Current:			
Instruction:			
Regular.	963,569	135,506	1,099,075
Special	5,151,433	34,241	5,185,674
Support services:			
Pupil	3,964,307	17,860	3,982,167
Instructional staff	2,213,300	1,113,587	3,326,887
Board of education	65,463	1,500	66,963
Administration	1,501,870	419,751	1,921,621
Fiscal	500,371	85,091	585,462
Business.	113,682		113,682
Operations and maintenance	488,964	93,422	582,386
Pupil transportation	91,995	54,162	146,157
Central	551,101	35,378	586,479
Operation of non-instructional services:			
Food service operations		50,877	50,877
Operation of non-instructional.	70,506	16,112	86,618
Total expenditures	<u>15,676,561</u>	<u>2,057,487</u>	<u>17,734,048</u>
Excess/(deficiency) of revenues over/(under) expenditures.	<u>586,827</u>	<u>(109,581)</u>	<u>477,246</u>
Other financing sources (uses):			
Transfers in.		7,618	7,618
Transfers (out)	(7,618)		(7,618)
Total other financing sources (uses)	<u>(7,618)</u>	<u>7,618</u>	
Extraordinary items:			
Settlement revenues	791,108		791,108
Settlement payments	(600,391)		(600,391)
Total extraordinary items	<u>190,717</u>		<u>190,717</u>
Net change in fund balances	769,926	(101,963)	667,963
Fund balances at beginning of year	<u>512,459</u>	<u>179,336</u>	<u>691,795</u>
Fund balances at end of year.	<u>\$ 1,282,385</u>	<u>\$ 77,373</u>	<u>\$ 1,359,758</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds \$ 667,963

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

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

Capital asset additions	\$	259,565	
Current year depreciation		(105,150)	
Total			154,415

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (92,462)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 57,921

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (154,322)

Change in net assets of governmental activities **\$ 633,515**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2010

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 3,180	\$ 236,529
Receivables:		
Intergovernmental		21,371
Prepayments		1,434
	3,180	\$ 259,334
Total assets.	3,180	\$ 259,334
Liabilities:		
Accounts payable		\$ 1,233
Accrued wages and benefits		5,715
Pension obligation payable		1,084
Intergovernmental payable		251,302
		259,334
Total liabilities.		\$ 259,334
Net assets:		
Held in trust for scholarships	3,180	
Total net assets.	\$ 3,180	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 7,500
Total additions.	7,500
Deductions:	
Scholarships awarded	6,820
Change in net assets.	680
Net assets at beginning of year	2,500
Net assets at end of year.	\$ 3,180

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The North Central Ohio Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is a County Board of Education as defined by Section 3311.03 of the Ohio Revised Code. The ESC operates under an elected Board (7 members) and is an administrative entity providing supervision and various other services to the school districts located in Marion, Sandusky, Seneca and Wyandot Counties. The Board is its own fiscal agent and issues its own financial statements. The ESC serves as fiscal agent for the Seneca County Family and Children First Council (the "Council") with the rights and responsibilities established by Section 121.37 of the Ohio Revised Code. Council funds are maintained in a separate agency fund by the ESC.

The ESC provides regular and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services and facilities acquisitions. The ESC is staffed by 177 non-certified employees and 164 certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities provided it does not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations, food service and student related activities of the ESC.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's Governing Board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the ESC has no

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government).

The following organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 area school districts and service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and service centers. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating service center and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating districts are located. Each district's authority is limited to its representation on the Board. Financial information can be obtained by contacting Betty Schwiefert, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Marion Area Partners in Education (the "Council")

The Council was established in accordance with Ohio Revised Code Section 3301.74. The purpose of the Council shall be to provide insight, generate suggestions and to promote a positive relationship between the school and the community it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within our financial means in order that conscientious students may enter the work force with the knowledge, skills and attitudes that are at a level which makes initial employment feasible and additional training both productive and economical.

The membership may be selected from the fields of commercial, industrial service, agricultural and governmental agencies. Consideration may also be given to a citizen representative (one) from each of the local districts. Each local superintendent may also serve as an "ex officio" member.

PUBLIC ENTITY RISK POOLS

North Central Ohio Joint Self-Insurance Association (the "Association")

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, five school districts - Old Fort, Bettsville, Seneca East, Mohawk and New Riegel and one city school, Tiffin. The Association was established pursuant to Section 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the school districts and the North Central Ohio Educational Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association, but their financial statements are not reported with the ESC's financial statements.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers'

Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

B. Fund Accounting

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the ESC's major governmental 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 for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the ESC are used to account for (a) grants and other resources whose use is restricted to a particular purpose; or (b) food service operations.

PROPRIETARY FUND

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

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 ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the ESC are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on 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 statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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. Fiduciary funds also use the accrual basis of accounting.

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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the ESC, available means expected to be received within thirty days of fiscal year end.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

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 year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a 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 to be both measurable and available at fiscal yearend: donations, interest, tuition, grants, entitlements and contract services.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. 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 have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Cash and Investments

To improve cash management, cash received by the ESC is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2010, investments were limited to State Treasury Asset Reserve of Ohio (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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$4,502, which includes \$681 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the ESC's investment account at year end is provided in Note 4.

F. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC maintains a capitalization threshold of \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The ESC does not possess infrastructure.

All reported 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Furniture and equipment	5 - 20 years
Software	5 years

G. Interfund Balances

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loan receivables/payables". These amounts are eliminated in the governmental activities column on the statement of net assets. There were no interfund loans outstanding at June 30, 2010.

H. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2010, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of service, including three with the ESC were considered expected to become eligible to retire in accordance with GASB Statement No. 16 (See Note 9 for detail on compensated absences).

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

I. Accrued Liabilities and Long-Term Obligations

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

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Fund Balance Reserves

The ESC reserves those 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 encumbrances and prepayments.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes includes amounts restricted for food service operations.

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

L. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

M. Estimates

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

N. Interfund Activity

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. During fiscal year

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

2010, the ESC incurred two transactions that would be classified as extraordinary items. The extraordinary items involve a settlement from the closure of Sandusky County Educational Service Center. The ESC received revenue from this settlement and made payments to local school districts that were entitled money from the settlement. These transactions are reflected as extraordinary items on the statement of activities.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the ESC has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 resulted in the capitalization of software in the amount of \$54,631 and is recorded on the statement of net assets on page 12 of the financial statements of the ESC.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the ESC.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

<u>Nonmajor funds</u>	<u>Deficit</u>
Education foundation	\$ 156
Termination benefits	14,370
Management information systems	14
Alternative school	5,339
IDEA, Part B	6,083
Title I	9,158
IDEA preschool grant for the handicapped	457

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the ESC 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 ESC treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the ESC'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.

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 ESC, 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash with Fiscal Agent

The ESC had cash held by the Ohio Mid-Eastern Regional Education Service Agency, which included on the financial statements as "cash with fiscal agent". The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2010 was \$39,600.

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all ESC deposits was \$176,844. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$571,864 of the ESC's bank balance of \$821,864 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the ESC's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

C. Investments

As of June 30, 2010, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	<u>\$ 2,580,234</u>	<u>\$ 2,580,234</u>

Interest Rate Risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the ESC's investment policy limits investment portfolio maturities to five years or less.

Credit Risk is the possibility that an issuer or other counter party to an investment will not fulfill its obligation. The ESC's investments in STAR Ohio were assigned an AAAM money market rating by Standard & Poor's.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The ESC's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 2,580,234</u>	<u>100.00</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 176,844
Investments	2,580,234
Cash with fiscal agent	<u>39,600</u>
Total	<u>\$ 2,796,678</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 2,556,969
Private-purpose trust funds	3,180
Agency funds	<u>236,529</u>
Total	<u>\$ 2,796,678</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2010, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	
General fund	<u>\$ 7,618</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues

collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2010 consisted of intergovernmental grants and entitlements. 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 receivables reported on the statement of net assets follows:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 – RECEIVABLES – (Continued)

Governmental activities:

Intergovernmental \$ 540,721

All receivables are expected to be collected within the subsequent year.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 06/30/09	Additions	Disposals	Balance 06/30/10
Governmental activities:				
Furniture and equipment	\$ 605,522	\$ 204,934	\$ (147,444)	\$ 663,012
Software		54,631		54,631
Total capital assets, being depreciated	<u>605,522</u>	<u>259,565</u>	<u>(147,444)</u>	<u>717,643</u>
<i>Less: accumulated depreciation</i>				
Furniture and equipment	(385,168)	(99,687)	54,982	(429,873)
Software		(5,463)		(5,463)
Total accumulated depreciation	<u>(385,168)</u>	<u>(105,150)</u>	<u>54,982</u>	<u>(435,336)</u>
Governmental activities capital assets, net	<u>\$ 220,354</u>	<u>\$ 154,415</u>	<u>\$ (92,462)</u>	<u>\$ 282,307</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 22,905
Special	491

Support services:

Pupil	1,241
Instructional staff	11,259
Administration	16,846
Fiscal	2,432
Operations and maintenance	9,273
Central	40,703

Total depreciation expense	<u>\$105,150</u>
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NOTE 8 - LONG-TERM OBLIGATIONS

During fiscal year 2010, the following changes occurred in governmental activities long-term obligations:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 8 - LONG-TERM OBLIGATIONS – (Continued)

	Balance Outstanding 06/30/09	Additions	Reductions	Balance Outstanding 06/30/10	Amounts Due in One Year
Governmental activities:					
Compensated absences payable	\$ 571,122	\$ 254,423	\$ (85,731)	\$ 739,814	\$ 110,841

Compensated absences will ultimately be paid from the fund from which the employee is paid, which is primarily the general fund.

NOTE 9 - COMPENSATED ABSENCES

Sick Leave:

Each full time professional staff member is entitled to 15 days sick leave with pay for each year under contract and accrues sick leave at the rate of one and one-fourth days for each calendar month under contract. Sick leave is cumulative to 200 days.

Severance Pay:

At the time of retirement from the ESC, a severance amount calculated by a prescribed formula applied to the employee's unused sick leave and daily rate of pay at the time of retirement from the ESC is granted to employees in compliance with Ohio law. Upon payment of severance pay, the retiring employee's sick leave accumulation is reduced to zero.

Retirement

Severance pay is based on a one-time, lump sum payment to eligible employees. An employee's eligibility for severance pay is determined as of the final date of employment. The criteria are as follows:

1. The individual retires from the ESC.
2. Retirement is defined as disability retirement or service retirement under any State or municipal retirement system in this State.
3. The individual must be eligible for disability or service retirement as of the last date of employment with the ESC.
4. The individual must prove acceptance into the retirement system within 120 days of his/her last day of employment by having received and cashed his/her first retirement check.
5. The individual must have not less than 10 years of service with this ESC, the state or its political subdivisions, or any combination thereof. The last 3 years of employment must be with the ESC.
6. The individual must sign for his/her severance check certifying that all eligibility criteria have been met.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - COMPENSATED ABSENCES – (Continued)

7. In order to receive severance pay, classified and certified staff shall have provided written notification of his/her intention to retire 90 days prior to the anticipated retirement date. Administrative staff is required to provide written notification by April 1st of the retirement year.

The amount of the benefit due an employee shall be calculated as follows:

1. The employee's accrued, but unused sick leave will be multiplied by one-fourth.
2. The product will be multiplied by the per diem rate of pay at the time of retirement.
3. Per diem of those administrators previously employed by the Seneca-Wyandot County Educational Service Center under 230 day contracts using 230 contract days.

The amount of the benefit calculated in steps one and two shall not exceed the value of 50 days of accrued, but unused sick leave.

Receipt of payment for accrued but unused sick leave eliminates all sick leave credit accrued by the employee.

The Board pays severance pay to the estate or life insurance beneficiary of an employee who qualifies for retirement and who dies while actively employed.

Upon retirement, employees are entitled to compensation at their current rate of pay for all unused vacation leave to their credit up to a maximum of their earned, but unused vacation leave for the current year. Per diem of those individuals previously employed by the Seneca-Wyandot County Board of Education under 230 day contracts shall be calculated using 230 contract days.

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The ESC 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. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Employee Health Insurance

The ESC is a member of the North Central Ohio Joint Self-Insurance Association (the "Association"). This organization is a public entity risk pool (See Note 2.A.). The Association was established pursuant to Ohio Revised Code Section 9.833 in order to provide health care benefits.

Each member school ESC and educational service center pays premiums to the Association for employee medical, dental, vision, and life insurance premiums. The Association is responsible for the management and operations of the program. Upon withdrawal, the member is responsible for the payment of all Association liabilities to its employees,

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 10 - RISK MANAGEMENT – (Continued)

dependents and designated beneficiaries accruing as a result of the withdrawal. Upon termination of the Association, all ESC's claims would be paid without regard to the ESC's account balance. The Association Board of Directors has the right to return monies to an exiting member subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 2.A.). The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program.

Each year, the participating school ESC's pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school ESC's is calculated as one experience and a common premium rate is applied to all school ESC's in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school ESC's that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, 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 publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements 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. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 11 - PENSION PLANS – (Continued)

contributions. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June

30, 2010, 2009 and 2008 were \$449,765, \$269,273 and \$189,791, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 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 (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or 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 DC Plan 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 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - PENSION PLANS - (Continued)

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$988,611, \$914,357 and \$724,074, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$24,308 made by the ESC and \$17,364 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each 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 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$75,261, \$149,627 and \$110,929, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$26,747, \$22,217 and \$13,675, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law 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 Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$76,047, \$70,335 and \$55,698, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

NOTE 13 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$40.52 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. However, due to State funding cuts the ESC was only funded \$36.23 per ADM.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 13 - STATE FUNDING – (Continued)

If additional funding is required and if a majority of the Boards of Education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$47.02 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating Boards approve or disapprove the apportionment. The districts to which the ESC provides services have agreed to pay \$6.50 per pupil to provide additional funding for services provided by the ESC.

NOTE 14 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the ESC. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

B. Litigation

The ESC is involved in no material litigation as either plaintiff or defendant.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Earnings on investments	\$ 12,871	\$ 14,000	\$ 4,533	\$ (9,467)
Tuition	7,904,699	8,598,059	8,579,166	(18,893)
Classroom materials and fees	34,016	37,000	13,266	(23,734)
Contributions and donations	5,700	6,200	14,198	7,998
Other local revenues	639,600	695,703	743,567	47,864
Contract services	2,987,829	3,249,906	3,511,373	261,467
Intergovernmental - intermediate	1,054	1,146	1,146	
Intergovernmental - state	2,843,885	3,093,336	3,144,592	51,256
Intergovernmental - federal	86,866	94,485		(94,485)
Total revenues	14,516,520	15,789,835	16,011,841	222,006
Expenditures:				
Current:				
Instruction:				
Regular	909,356	1,001,955	930,381	71,574
Special	4,948,299	5,452,178	5,164,283	287,895
Support services:				
Pupil	3,840,760	4,231,857	3,931,133	300,724
Instructional staff	2,064,989	2,275,264	2,191,940	83,324
Board of education	67,245	74,093	65,523	8,570
Administration	1,415,139	1,559,241	1,495,795	63,446
Fiscal	469,772	517,608	533,617	(16,009)
Business	111,900	123,295	117,018	6,277
Operations and maintenance	511,393	563,468	494,550	68,918
Pupil transportation	105,516	116,261	91,414	24,847
Central	575,008	633,560	553,444	80,116
Operation of non-instructional services	69,351	76,413	73,275	3,138
Total expenditures	15,088,728	16,625,193	15,642,373	982,820
Excess/(deficiency) of revenues over (under) expenditures	(572,208)	(835,358)	369,468	1,204,826
Other financing sources (uses):				
Refund of prior year's expenditures	460	500	102,082	101,582
Refund of prior year's receipts	(122)	(134)	(134)	
Contingencies	(170,827)	(188,222)		188,222
Transfers in	618,706	672,976	600,391	(72,585)
Transfers (out)	(557,542)	(614,316)	(608,009)	6,307
Advances in	874	951	951	
Advances (out)	(635)	(700)		700
Total other financing sources (uses)	(109,086)	(128,945)	95,281	224,226
Extraordinary items:				
Settlement revenues	727,312	791,108	791,108	
Settlement payments	(544,904)	(600,391)	(600,391)	
Total extraordinary items	182,408	190,717	190,717	
Net change in fund balance	(498,886)	(773,586)	655,466	1,429,052
Fund balance at beginning of year	1,632,583	1,632,583	1,632,583	
Prior year encumbrances appropriated	45,789	45,789	45,789	
Fund balance at end of year	\$ 1,179,486	\$ 904,786	\$ 2,333,838	\$ 1,429,052

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTE TO THE SUPPLEMENTARY INFORMATION

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

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Board approve appropriations and estimated resources. The ESC's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

While reporting financial position and changes in financial position/fund balance 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 and disbursements plus encumbrances.

The adjustments necessary to convert the results of operations for the fiscal year on the budget basis to the GAAP basis for the general fund are as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 655,466
Net adjustment for revenue accruals	251,547
Net adjustment for expenditure accruals	(127,046)
Net adjustment for other sources/(uses)	(102,899)
Adjustment for encumbrances	<u>92,858</u>
GAAP basis	<u>\$ 769,926</u>

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
National School Lunch Program	10.555	\$ 25,741	\$ 25,741
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
<u>Special Education Cluster:</u>			
Special Education Grants to States	84.027	1,052,963	1,055,351
Special Education Preschool Grant	84.173	182,551	180,418
ARRA - Special Preschool Grants	84.392	46,924	45,856
Total Special Education Cluster		<u>1,282,438</u>	<u>1,281,625</u>
<u>Title I Cluster:</u>			
Title I Grants to Local Educational Agencies	84.010	27,343	27,343
ARRA - Title I Grants to Local Educational Agencies	84.389	18,169	18,169
Total Title I Cluster		<u>45,512</u>	<u>45,512</u>
Twenty-First Century Community Learning Centers	84.287	16,634	16,626
LEP Title II	84.365	12,759	12,658
Total U.S. Department of Education		<u>1,357,343</u>	<u>1,356,421</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<i>Passed Through Ohio Department of Health:</i>			
<u>Early Intervention Services (IDEA) Cluster:</u>			
Help Me Grow	84.181	48,535	48,535
ARRA - Help Me Grow	84.393 A	48,765	48,765
Total Early Intervention Services (IDEA) Cluster		<u>97,300</u>	<u>97,300</u>
Total Federal Receipts and Expenditures		<u>\$ 1,480,384</u>	<u>\$ 1,479,462</u>

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the North Central Ohio Educational Service Center (the ESC's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B – NATIONAL SCHOOL LUNCH PROGRAM

Cash receipts from the U.S. Department of Agriculture are commingled with State grants and local receipts. It is assumed federal monies are expended first.



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*

North Central Ohio Educational Service Center
Seneca County
65 Saint Francis Avenue
Tiffin, Ohio 44883-3413

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of North Central Ohio Educational Service Center, Seneca County, (the ESC) as of and for the year ended June 30, 2010, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated March 9, 2011. 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 ESC's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the ESC's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the ESC'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 ESC'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 ESC'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*.

We intend this report solely for the information and use of management, the audit committee, the Governing Board, federal awarding agencies and pass-through entities and others within the ESC. 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, flowing style.

Dave Yost
Auditor of State

March 9, 2011



Dave Yost • Auditor of State

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

North Central Ohio Educational Service Center
Seneca County
65 Saint Francis Avenue
Tiffin, Ohio 44883-3413

To the Governing Board:

Compliance

We have audited the compliance of the North Central Ohio Educational Service Center, Seneca County (the ESC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the ESC's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the ESC's major federal programs. The ESC's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the ESC's compliance based on our audit.

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

In our opinion, the North Central Ohio Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The ESC's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the ESC's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the ESC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

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



Dave Yost
Auditor of State

March 9, 2011

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster – CFDA # 84.027, 84.173 and 84.392
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 24, 2011**



Dave Yost • Auditor of State

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

North Central Ohio Educational Service Center
Seneca County
928 West Market Street
Tiffin, Ohio 44883-2529

To the Governing Board:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Ohio Educational Service Center, Seneca 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2011, on our consideration of the ESC'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 ESC's basic financial statements taken as a whole. The schedule of revenue, expenditures and changes in fund balance – budget and actual provides additional information and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of revenue, expenditures and changes in fund balance – budget and actual and the federal awards receipts and expenditures schedule are management's responsibility, and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. These schedules were 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

December 20, 2011

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The management's discussion and analysis of the North Central Ohio Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2011 are as follows:

- Net assets of governmental activities decreased \$70,598 which represents a 6.83% decrease from 2010.
- General revenues accounted for \$3,432,957 in revenue or 17.95% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$15,696,274 or 82.05% of total revenues of \$19,129,231.
- The ESC had \$19,199,829 in expenses related to governmental activities; \$15,696,274 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$3,432,957 were not adequate to provide for these programs.
- The ESC's two major governmental funds are the general fund and building fund. The general fund had \$16,943,105 in revenues and other financing sources and \$17,468,605 in expenditures and other financing uses. During fiscal year 2011, the general fund's fund balance decreased \$525,500 from a balance of \$1,268,619 to a balance of \$743,119.
- The building fund had \$3,530,000 in revenues related to the sale of notes and \$3,530,000 in expenditures. At June 30, 2011 the building's fund balance remained at zero.

Using these Basic Financial Statements

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

The statement of net assets and statement of activities provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund and building fund are by far the most significant funds, and the only governmental funds reported as major funds.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the ESC as a whole, the financial position of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the ESC's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental funds begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the general fund and building fund.

Governmental Funds

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

Reporting the ESC's Fiduciary Responsibilities

The ESC is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The ESC also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 19 and 20. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The ESC as a Whole

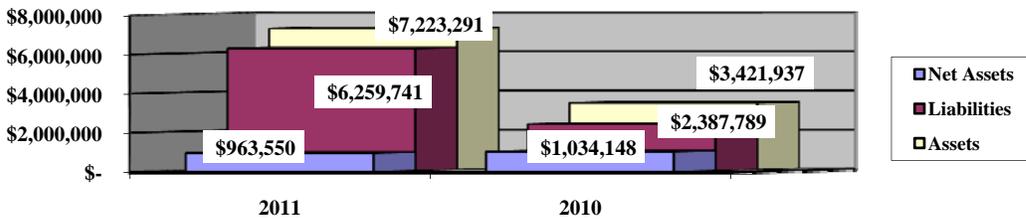
Recall that the statement of net assets provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net assets for 2011 and 2010.

	Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Assets</u>		
Current assets	\$3,003,036	\$3,139,630
Capital assets, net	4,220,255	282,307
Total assets	7,223,291	3,421,937
<u>Liabilities</u>		
Current liabilities	1,921,674	1,647,975
Long-term liabilities	4,338,067	739,814
Total liabilities	6,259,741	2,387,789
<u>Net Assets</u>		
Invested in capital assets, net of related debt	690,255	282,307
Restricted	79,700	159,285
Unrestricted	193,595	592,556
Total net assets	\$963,550	\$1,034,148

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the ESC's assets exceeded liabilities by \$963,550. Of this total, \$79,700 is restricted in use leaving the ESC with unrestricted net assets of \$193,595. The graph below illustrates the ESC's governmental activities assets, liabilities, and net assets for 2011 and 2010.

Governmental Activities



**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The table below shows the change in net assets for fiscal years 2011 and 2010.

	Change in Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Revenues</u>	<hr/>	<hr/>
Program revenues:		
Charges for services and sales	\$13,564,356	\$12,875,804
Operating grants and contributions	2,131,918	1,934,745
General revenues:		
Grants and entitlements, unrestricted	3,205,411	3,145,738
Investment earnings	4,970	4,502
Other	222,576	308,426
Total revenues	<hr/> 19,129,231	<hr/> 18,269,215

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	2011	2010
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	952,623	1,018,973
Special	6,026,786	5,326,874
Other	16,759	
Support services:		
Pupil	4,452,754	4,002,939
Instructional staff	3,641,747	3,347,353
Board of education	66,677	66,963
Administration	1,623,405	1,963,255
Fiscal	618,157	595,165
Business	171,030	114,677
Operations and maintenance	540,805	575,182
Pupil transportation	148,316	146,157
Central	754,436	529,212
Operations of non-instructional services:		
Other non-instructional services	128,959	88,790
Food service operations	47,661	50,877
Extracurricular activities	1,410	
Interest and fiscal charges	8,304	
Total expenses	19,199,829	17,826,417
<u>Extraordinary items</u>		
Settlement revenues		791,108
Settlement payments		(600,391)
Total extraordinary items		190,717
Change in net assets	(70,598)	633,515
Net assets at beginning of year	1,034,148	400,633
Net assets at end of year	\$963,550	\$1,034,148

Governmental Activities

Net assets of the ESC's governmental activities decreased \$70,598. Total governmental expenses of \$19,199,829 were offset by program revenues of \$15,696,274 and general revenues of \$3,432,957. Program revenues supported 81.75% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from contract services and charges for services. These revenue sources represent 82.05% of total governmental revenue.

The largest expense of the ESC is for support services. Support services expenses totaled \$12,017,327 or 62.59% of total governmental expenses for fiscal 2011.

The graph below presents the ESC's governmental activities revenues and expenses for fiscal year 2011 and 2010.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements, and other general revenues not restricted to a specific program.

	Governmental Activities			
	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$952,623	\$52,597	\$1,018,973	\$41,077
Special	6,026,786	1,102,171	5,326,874	1,226,318
Other	16,759	16,759		
Support services:				
Pupil	4,452,754	820,749	4,002,939	759,154
Instructional staff	3,641,747	471,555	3,347,353	355,115
Board of education	66,677	66,677	66,963	66,834
Administration	1,623,405	215,146	1,963,255	202,456
Fiscal	618,157	107,007	595,165	57,373
Business	171,030	171,030	114,677	114,677
Operations and maintenance	540,805	89,037	575,182	38,143
Pupil transportation	148,316	95,214	146,157	91,995
Central	754,436	172,681	529,212	(7,804)
Operations of non-instructional services:				
Other non-instructional services	128,959	118,323	88,790	69,856
Food service operations	47,661	(3,851)	50,877	674
Extracurricular activities	1,410	156		
Interest and fiscal charges	8,304	8,304		
Total expenses	<u><u>\$19,199,829</u></u>	<u><u>\$3,503,555</u></u>	<u><u>\$17,826,417</u></u>	<u><u>\$3,015,868</u></u>

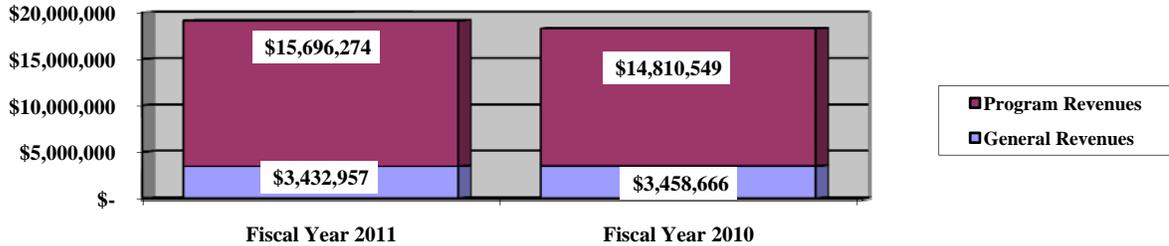
For all governmental activities, program revenue support is 81.75%. The primary support for the ESC is contracted fees for services provided to other districts.

The graph below presents the ESC's governmental activities revenues for fiscal year 2011 and 2010.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$807,779, which is lower than last year's total restated balance of \$1,359,758 (as described in Note 3B). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance June 30, 2011	Restated Fund Balance June 30, 2010	(Decrease)	Percentage Change
General	\$743,119	\$1,268,619	(\$525,500)	(41.42) %
Other Governmental	64,660	91,139	(26,479)	(29.05) %
Total	\$807,779	\$1,359,758	(\$551,979)	(40.59) %

General Fund

The ESC's general fund balance decreased by \$525,500. The decrease in fund balance can be attributed to the increase in facilities acquisition and construction expenditures of \$572,539 relating to the new facilities acquired by the ESC during the fiscal year. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

	2011 Amount	Restated 2010 Amount	Increase/ (Decrease)	Percentage Change
<u>Revenues</u>				
Contract services	\$4,164,882	\$3,620,149	\$544,733	15.05 %
Earnings on investments	4,970	4,502	468	10.40 %
Tuition	8,645,706	8,582,644	63,062	0.73 %
Intergovernmental	3,202,167	3,145,738	56,429	1.79 %
Other revenues	853,144	911,052	(57,908)	(6.36) %
Total	<u>\$16,870,869</u>	<u>\$16,264,085</u>	<u>\$606,784</u>	3.73 %
<u>Expenditures</u>				
Instruction	\$6,833,209	\$6,115,002	\$718,207	11.75 %
Support services	9,935,712	9,505,516	430,196	4.53 %
Non-instructional services	120,684	70,506	50,178	71.17 %
Facilities acquisition and construction	572,539		572,539	100.00 %
Total	<u>\$17,462,144</u>	<u>\$15,691,024</u>	<u>\$1,771,120</u>	11.29 %

The increase in contract services of \$544,733 is a result of the increased services the ESC provides to local districts. This increase in revenue is a result in the amount of money districts have available to spend due to the additional funding available to local districts with the American Recovery Reinvestment Act through fiscal year 2011. These revenues are in direct correlation with the increase in instruction and support services expenditures during the fiscal year. The ESC hired additional employees to fill a variety of positions such as teachers and aides. The increase in facilities acquisition and construction expenditures of \$572,539 are due to additional spending relating to the new facilities acquired by the ESC during the fiscal year. All other revenues and expenditures remain comparable to the prior year and need no further analysis.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the ESC had \$4,220,255 invested in land, buildings and improvements, furniture and equipment and software. This entire amount is reported in governmental activities. The following table shows 2011 balances compared to 2010.

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2011	2010
Land	\$148,850	
Building and improvements	3,723,844	
Furniture and equipment	309,319	\$233,139
Software	38,242	49,168
Total	<u>\$4,220,255</u>	<u>\$282,307</u>

The overall increase in capital assets of \$3,937,948 is due to capital outlays of \$4,051,264 exceeding depreciation of \$111,439 and disposals net of accumulated depreciation of \$1,877 in the fiscal year.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Debt Administration

At June 30, 2011, the ESC had a \$3,530,000 promissory note outstanding. The entire amount of \$3,530,000 is due in more than one year. The following table summarizes the promissory note outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2011 <hr/>
Promissory note	<u>\$3,530,000</u>

Current Financial Related Activities

Fiscal year 2011, much like previous fiscal years, brought several changes in personnel and programs to the educational service center (ESC). The most significant change came with the purchase of a renovated office space in Tiffin. Prior to the purchase, the ESC entered into lease with option to purchase agreement with Leonard and Lynn Clouse. On June 8, 2011, the ESC exercised the option to purchase this facility. Due to the continual growth of the organization, the need for larger office space was a major issue. Furthermore, the new facility provided sufficient space which permitted the ESC to close its Fremont office. This office closure resulted in cost reductions of approximately \$123,000.

The ESC also sponsored two new community schools; the North Central Academy (NCA) – Fremont and Richland Academy of Excellence. NCA – Fremont serves students in grades 6-12 for Sandusky County which provides viable educational program for at-risk youths and allows the ESC additional opportunities to provide needed services for students who may not receive these services in a traditional school setting. The Richland Academy School of Excellence educates students in grades 5-8 in Richland County. This new school is designed to use a combination of high-level core academic preparation with a high-quality fine arts education to build competent and confident future community leaders. The sponsorship of the community schools provides for a 3 percent sponsorship fee for oversight and monitoring, as well as, a 5 percent administrative fee for contracted services.

In addition, the ESC contracted with four new member districts; Crestline Exempted Village, Galion City, Mt. Gilead Exempted Village, and Sandusky City Schools. At the request of new and current districts several programs were added or expanded; gifted, multiple handicapped, preschool, psychology, speech, occupational therapy, and physical therapy.

The ESC relies heavily on contracts with local, city, and exempted village school districts in Crawford, Seneca, Sandusky, Marion, Morrow, Union, and Wyandot Counties. The ESC closely monitors changes in cash and determine cost cutting methods to preserve fund balance while maintaining a high quality of services. The ESC continues to explore alternative means to generate revenues by expanding service and reducing costs to our districts without sacrificing service.

The ESC continues to be financially sound; however, school finance has its various challenges. There are many factors that are beyond the control of management which can impact the financial condition. School districts have experienced major changes in legislation, school funding initiatives, and local economic conditions.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Since fiscal year 1994 there have been no increases in funding from the State. In fiscal year 2008, the ESC was notified by the Ohio Department of Education of a reduction of 9.62% in the state per-pupil annual funding. The end of fiscal year 2011, the ESC was informed of an additional 10% cut in the state funding for fiscal year 2012. The ESC anticipates an additional 15% reduction in fiscal year 2013. The continual reductions in state funding require the ESC to be innovative in searching for new revenue sources and cost savings strategies.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Rhonda Feasel, Treasurer, North Central Ohio Educational Service Center, 928 W. Market St, Suite A, Tiffin, Ohio 44883-2529.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$2,367,195
Cash with fiscal agent	99,673
Receivables:	
Intergovernmental	430,881
Prepayments	36,704
Unamortized bond issuance costs	68,583
Capital assets:	
Land	148,850
Depreciable capital assets, net.	4,071,405
Capital assets, net	4,220,255
 Total assets.	 7,223,291
 Liabilities:	
Accounts payable.	194,342
Accrued wages and benefits	1,346,975
Pension obligation payable.	245,691
Intergovernmental payable	129,894
Accrued interest payable	4,772
Long-term liabilities:	
Due within one year.	129,572
Due within more than one year	4,208,495
Total liabilities	6,259,741
 Net Assets:	
Invested in capital assets	690,255
Restricted for:	
Locally funded programs	7,734
Federally funded programs	62,018
Other purposes	9,948
Unrestricted	193,595
Total net assets	\$963,550

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$952,623	\$851,782	\$48,244	(\$52,597)
Special	6,026,786	4,822,635	101,980	(1,102,171)
Other	16,759			(16,759)
Support services:				
Pupil.	4,452,754	3,579,246	52,759	(820,749)
Instructional staff	3,641,747	1,964,520	1,205,672	(471,555)
Board of education	66,677			(66,677)
Administration.	1,623,405	1,003,879	404,380	(215,146)
Fiscal.	618,157	443,794	67,356	(107,007)
Business.	171,030			(171,030)
Operations and maintenance	540,805	351,064	100,704	(89,037)
Pupil transportation.	148,316		53,102	(95,214)
Central	754,436	529,610	52,145	(172,681)
Operation of non-instructional services:				
Other non-instructional services	128,959		10,636	(118,323)
Food service operations	47,661	17,060	34,452	3,851
Extracurricular activities.	1,410	766	488	(156)
Interest and fiscal charges	8,304			(8,304)
Total governmental activities	\$19,199,829	\$13,564,356	\$2,131,918	(3,503,555)
 General Revenues:				
Grants and entitlements not restricted				
to specific programs				3,205,411
Investment earnings				4,970
Miscellaneous				222,576
Total general revenues				3,432,957
Change in net assets				(70,598)
Net assets at beginning of year.				1,034,148
Net assets at end of year				\$963,550

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$2,243,852		\$123,343	\$2,367,195
Cash with fiscal agent	99,673			99,673
Receivables:				
Intergovernmental	348,356		82,525	430,881
Prepayments	27,792		8,912	36,704
Due from other funds	3,133			3,133
Total assets	<u>\$2,722,806</u>		<u>\$214,780</u>	<u>\$2,937,586</u>
Liabilities:				
Accounts payable	\$169,787		\$24,555	\$194,342
Accrued wages and benefits	1,338,680		8,295	1,346,975
Pension obligation payable	233,821		11,870	245,691
Compensated absences payable	63,069			63,069
Intergovernmental payable	74,193		55,701	129,894
Deferred revenue	100,137		46,566	146,703
Due to other funds			3,133	3,133
Total liabilities	<u>1,979,687</u>		<u>150,120</u>	<u>2,129,807</u>
Fund Balances:				
Nonspendable:				
Prepays	27,792		8,912	36,704
Restricted:				
Food service operations			6,704	6,704
Special education			20,335	20,335
Other purposes			29,752	29,752
Committed:				
Facilities acquisition and construction	14,500			14,500
Assigned:				
Student instruction	6,183			6,183
Student and staff support	13,164			13,164
Facilities acquisition and construction	69,112			69,112
Public school support	700			700
Employee benefits	99,673			99,673
Unassigned (deficit)	511,995		(1,043)	510,952
Total fund balances	<u>743,119</u>		<u>64,660</u>	<u>807,779</u>
Total liabilities and fund balances	<u>\$2,722,806</u>		<u>\$214,780</u>	<u>\$2,937,586</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Total governmental fund balances		\$807,779
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,220,255
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Contract service receivable	\$88,859	
Other receivable	5,678	
Intergovernmental receivable	49,810	
Tuition receivable	<u>2,356</u>	
Total		146,703
Unamortized note issuance costs are not recognized in the funds		68,583
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(4,772)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		
Notes	(3,530,000)	
Compensated absences	<u>(744,998)</u>	
Total		<u>(4,274,998)</u>
Net assets of governmental activities		<u><u>\$963,550</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Charges for services			\$3,235	\$3,235
Earnings on investments	\$4,970			4,970
Tuition	8,645,706			8,645,706
Extracurricular			1,275	1,275
Classroom materials and fees	23,732			23,732
Contributions and donations	22,407		13,127	35,534
Contract services	4,164,882		25,828	4,190,710
Other local revenues	807,005		15,578	822,583
Intergovernmental - intermediate	18,989			18,989
Intergovernmental - state	3,183,178		501,584	3,684,762
Intergovernmental - federal			1,668,559	1,668,559
Total revenues	<u>16,870,869</u>		<u>2,229,186</u>	<u>19,100,055</u>
Expenditures:				
Current:				
Instruction:				
Regular	903,795		50,066	953,861
Special	5,912,655		105,594	6,018,249
Other	16,759			16,759
Support services:				
Pupil	4,375,554		48,609	4,424,163
Instructional staff	2,384,348		1,255,012	3,639,360
Board of education	64,677		2,000	66,677
Administration	1,226,563		401,858	1,628,421
Fiscal	542,529		65,915	608,444
Business	170,672			170,672
Operations and maintenance	429,167		99,356	528,523
Pupil transportation	94,764		52,672	147,436
Central	647,438		50,404	697,842
Operation of non-instructional services:				
Other of non-instructional services	120,684		9,333	130,017
Food service operations			47,661	47,661
Extracurricular activities			1,410	1,410
Facilities acquisition and construction	572,539	\$3,457,885		4,030,424
Debt service:				
Bond issuance costs		72,115		72,115
Total expenditures	<u>17,462,144</u>	<u>3,530,000</u>	<u>2,189,890</u>	<u>23,182,034</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>(591,275)</u>	<u>(3,530,000)</u>	<u>39,296</u>	<u>(4,081,979)</u>
Other financing sources (uses):				
Sale of notes		3,530,000		3,530,000
Transfers in	72,236		6,461	78,697
Transfers (out)	(6,461)		(72,236)	(78,697)
Total other financing sources (uses)	<u>65,775</u>	<u>\$3,530,000</u>	<u>(65,775)</u>	<u>3,530,000</u>
Net change in fund balances	(525,500)		(26,479)	(551,979)
Fund balances at beginning of year	1,268,619		91,139	1,359,758
Fund balances at end of year	<u>\$743,119</u>		<u>\$64,660</u>	<u>\$807,779</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds (\$551,979)

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

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

Capital asset additions	\$4,051,264	
Current year depreciation	(111,439)	
	(111,439)	
Total		3,939,825

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (1,877)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 29,176

Issuance of notes are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net assets. (3,530,000)

Note issuance costs related to the issuance of notes are amortized over the life of the issuance in the statement of activities. 68,583

In the statement of activities, interest accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due. (4,772)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (19,554)

Change in net assets of governmental activities (\$70,598)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2011

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$2,680	\$204,096
Cash with fiscal agent		3,620,071
Receivables:		
Intergovernmental.		3,000
Prepayments		1,434
	2,680	3,828,601
Total assets.		\$3,828,601
Liabilities:		
Accounts payable.		\$2,892
Accrued wages and benefits		1,446
Pension obligation payable.		1,376
Intergovernmental payable		3,822,887
		3,828,601
Total liabilities		\$3,828,601
Net assets:		
Held in trust for scholarships	2,680	
Total net assets	\$2,680	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and contributions	\$8,500
Total additions	8,500
Deductions:	
Scholarships awarded	9,000
Change in net assets	(500)
Net assets at beginning of year	3,180
Net assets at end of year	\$2,680

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The North Central Ohio Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is a County Board of Education as defined by Section 3311.03 of the Ohio Revised Code. The ESC operates under an elected Board (7 members) and is an administrative entity providing supervision and various other services to the school districts located in Marion, Sandusky, Seneca and Wyandot Counties. The Board is its own fiscal agent and issues its own financial statements. The ESC serves as fiscal agent for the Seneca County Family and Children First Council (the "Council") with the rights and responsibilities established by Section 121.37 of the Ohio Revised Code. Council funds are maintained in a separate agency fund by the ESC.

The ESC provides regular and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services and facilities acquisitions. The ESC is staffed by 173 non-certified employees and 169 certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities provided it does not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations, food service and student related activities of the ESC.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's Governing Board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the ESC has no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government).

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 area school districts and service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and service centers. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating service center and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating districts are located. Each district's authority is limited to its representation on the Board. Financial information can be obtained by contacting Betty Schwiefert, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

PUBLIC ENTITY RISK POOLS

North Central Ohio Joint Self-Insurance Association (the "Association")

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, five school districts - Old Fort, Bettsville, Seneca East, Mohawk and New Riegel and one city school, Tiffin. The Association was established pursuant to Section 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the school districts and the North Central Ohio Educational Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association, but their financial statements are not reported with the ESC's financial statements.

The ESC serves as fiscal agent for the Association. Financial assets and liabilities for fiscal year 2011 are reported in the basic financial statements as an agency fund. To obtain financial information, write Rhonda Feasel, Treasurer, North Central Ohio Educational Service Center, 928 West Market Street, Suite A, Tiffin, Ohio 44883.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

GOVERNMENTAL FUNDS

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

General Fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Building Fund - The building fund is used to account for the receipts and expenditures related to the issuance of promissory notes for capital facilities. Expenditures recorded in this fund represent the costs of acquiring and improving capital facilities, including real property.

Other governmental funds of the ESC are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes other than capital projects.

PROPRIETARY FUND

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

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 ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the ESC are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on 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 statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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. Fiduciary funds also use the accrual basis of accounting.

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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the ESC, available means expected to be received within thirty days of fiscal year end.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

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 year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a 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 to be both measurable and available at fiscal year end: donations, interest, tuition, grants, entitlements and contract services.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. 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 have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budgets

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

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(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Board approve appropriations and estimated resources. The ESC's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

F. Cash and Investments

To improve cash management, cash received by the ESC is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2011, investments were limited to State Treasury Asset Reserve of Ohio (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 shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$4,970, which includes \$3,113 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the ESC's investment account at year end is provided in Note 4.

G. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC maintains a capitalization threshold of \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The ESC does not possess infrastructure.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All reported capital assets, except land, 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	Governmental Activities Estimated Lives
Buildings and improvements	50 years
Furniture and equipment	5 - 20 years
Software	5 years

H. Interfund Balances

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

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental activities column on the statement of net assets.

I. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2011, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of service, including three with the ESC were considered expected to become eligible to retire in accordance with GASB Statement No. 16 (See Note 9 for detail on compensated absences).

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2011 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the ESC Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the ESC's Governing Board 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Assigned - Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted nor 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 policies of the ESC's Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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 only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The ESC applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is 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 could be used.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes includes amounts restricted for food service operations.

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

M. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

N. Unamortized Note Issuance Costs

On government-wide financial statements, issuance costs are deferred and amortized over the term of the notes using the straight-line method. Unamortized note issuance costs are recorded as a separate line item on the statement of net assets.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Estimates

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

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither occurred during fiscal year 2011.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the ESC has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the ESC.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the ESC's governmental fund cash balances as previously reported:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

	General	Building	Nonmajor Governmental	Total Governmental
Fund cash balance as previously reported	\$1,282,385		\$77,373	\$1,359,758
Fund reclassifications:				
Public school support fund	604		(604)	
Termination benefits	(14,370)		14,370	
Total fund reclassifications	<u>(13,766)</u>		<u>13,766</u>	
Restated fund cash balance at July 1, 2010	<u>\$1,268,619</u>		<u>\$91,139</u>	<u>\$1,359,758</u>

The fund reclassifications did not have an effect on net cash assets as previously reported.

C. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

Nonmajor funds	Deficit
Education foundation	\$482
Management information systems	15
Alternative school	130
Title III - limited english proficiency	3
Title I	46

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the ESC 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 ESC treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board 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.

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(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the ESC'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.

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(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 ESC, 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash with Fiscal Agent

The ESC had cash held by the Ohio Mid-Eastern Regional Education Service Agency, which included on the financial statements as “cash with fiscal agent”. The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2011 was \$99,673 in the governmental funds and \$3,620,071 in the agency funds.

B. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all ESC deposits was \$84,604. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2011, \$2,811 of the ESC’s bank balance of \$252,811 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the ESC’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

C. Investments

As of June 30, 2011, the ESC had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity 6 months or less
STAR Ohio	\$2,489,267	\$2,489,267

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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the ESC's investment policy limits investment portfolio maturities to five years or less.

Credit Risk is the possibility that an issuer or other counter party to an investment will not fulfill its obligation. The ESC's investments in STAR Ohio were assigned an AAAM money market rating by Standard & Poor's.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The ESC's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$2,489,267</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$84,604
Investments	2,489,267
Cash with fiscal agent	3,719,744
Cash on hand	100
Total	<u>\$6,293,715</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$2,466,868
Private-purpose trust funds	2,680
Agency funds	3,824,167
Total	<u>\$6,293,715</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the fund financial statements:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

<u>Transfers to nonmajor governmental funds from:</u>	
General fund	\$6,461
 <u>Transfers to general fund from:</u>	
Nonmajor governmental funds	<u>72,236</u>
Total	<u><u>\$78,697</u></u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The \$72,236 transfer to the general fund was a residual equity transfer due to the closure of a nonmajor governmental fund.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- B.** Due from and to other funds at June 30, 2011 consisted of the following individual amounts, as reported in the fund financial statements:

<u>Due to general fund from:</u>	<u>Amount</u>
Nonmajor governmental fund	<u><u>\$3,133</u></u>

The purpose of this amount due from and to other funds is to cover negative cash balances in nonmajor special revenue funds. Effective April 1, 2007, the ESC may maintain negative cash balances if two criteria are met: (1) the general fund must have available and unencumbered funds to cover the negative amounts; and (2) a reimbursement request must have been submitted by the fiscal year-end. The ESC has met these two requirements.

This amount will be repaid once the anticipated revenues are received. Amounts due from and to other funds between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2011 consisted of intergovernmental grants and entitlements. 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 receivables reported on the statement of net assets follows:

Governmental activities:	
Intergovernmental	<u><u>\$430,881</u></u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 6 – RECEIVABLES – (Continued)

All receivables are expected to be collected within the subsequent year.

NOTE 7 - CAPITAL ASSETS

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

	Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land		\$148,850		\$148,850
Total capital assets, not being depreciated		148,850		148,850
<i>Capital assets, being depreciated:</i>				
Buildings and improvements		3,730,058		3,730,058
Furniture and equipment	\$663,012	172,356	(\$45,358)	790,010
Software	54,631			54,631
Total capital assets, being depreciated	717,643	3,902,414	(45,358)	4,574,699
<i>Less: accumulated depreciation:</i>				
Buildings and improvements		(6,214)		(6,214)
Furniture and equipment	(429,873)	(94,299)	43,481	(480,691)
Software	(5,463)	(10,926)		(16,389)
Total accumulated depreciation	(435,336)	(111,439)	43,481	(503,294)
Governmental activities capital assets, net	\$282,307	\$3,939,825	(\$1,877)	\$4,220,255

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$17,629
Special	1,802
<u>Support services:</u>	
Pupil	2,705
Instructional staff	10,830
Administration	17,231
Fiscal	2,401
Operations and maintenance	10,491
Central	48,350
Total depreciation expense	<u>\$111,439</u>

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 8 - LONG-TERM OBLIGATIONS

During fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/10	Additions	Reductions	Balance Outstanding 06/30/11	Amounts Due in One Year
Governmental activities:					
Promissory Note - 3.55%		\$3,530,000		\$3,530,000	
Compensated absences payable	\$739,814	173,218	(\$104,965)	808,067	\$129,572
Total long-term obligations, governmental activities	<u>\$739,814</u>	<u>\$3,703,218</u>	<u>(\$104,965)</u>	<u>\$4,338,067</u>	<u>\$129,572</u>

On June 8, 2011, the ESC entered into a promissory note to provide financing for the acquisition of an administrative and educational services building. The note proceeds of \$3,530,000 carry an interest rate of 3.55% and mature on December 1, 2031.

Compensated absences will ultimately be paid from the fund from which the employee is paid, which is primarily the general fund.

The following is a summary of the ESC's future debt service requirements to maturity for the 2011 promissory note:

Fiscal Year Ended	2011 Promissory Note		
	Principal	Interest	Total
2011		\$60,221	\$60,221
2012	\$125,000	125,316	250,316
2013	130,000	120,878	250,878
2014	135,000	116,262	251,262
2015	140,000	111,470	251,470
2016 - 2020	770,000	479,782	1,249,782
2021 - 2025	910,000	333,524	1,243,524
2026 - 2030	1,080,000	160,284	1,240,284
2031	240,000	8,520	248,520
Total	<u>\$3,530,000</u>	<u>\$1,516,257</u>	<u>\$5,046,257</u>

NOTE 9 - COMPENSATED ABSENCES

Sick Leave:

Each full time professional staff member is entitled to 15 days sick leave with pay for each year under contract and accrues sick leave at the rate of one and one-fourth days for each calendar month under contract. Sick leave is cumulative to 200 days.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 - COMPENSATED ABSENCES - (Continued)

Severance Pay:

At the time of retirement from the ESC, a severance amount calculated by a prescribed formula applied to the employee's unused sick leave and daily rate of pay at the time of retirement from the ESC is granted to employees in compliance with Ohio law. Upon payment of severance pay, the retiring employee's sick leave accumulation is reduced to zero.

Retirement

Severance pay is based on a one-time, lump sum payment to eligible employees. An employee's eligibility for severance pay is determined as of the final date of employment. The criteria are as follows:

1. The individual retires from the ESC.
2. Retirement is defined as disability retirement or service retirement under any State or municipal retirement system in this State.
3. The individual must be eligible for disability or service retirement as of the last date of employment with the ESC.
4. The individual must prove acceptance into the retirement system within 120 days of his/her last day of employment by having received and cashed his/her first retirement check.
5. The individual must have not less than 10 years of service with this ESC, the state or its political subdivisions, or any combination thereof. The last 3 years of employment must be with the ESC.
6. The individual must sign for his/her severance check certifying that all eligibility criteria have been met.
7. In order to receive severance pay, classified and certified staff shall have provided written notification of his/her intention to retire 90 days prior to the anticipated retirement date. Administrative staff is required to provide written notification by April 1st of the retirement year.

The amount of the benefit due an employee shall be calculated as follows:

1. The employee's accrued, but unused sick leave will be multiplied by one-fourth.
2. The product will be multiplied by the per diem rate of pay at the time of retirement.
3. Per diem of those administrators previously employed by the Seneca-Wyandot County Educational Service Center under 230 day contracts using 230 contract days.

The amount of the benefit calculated in steps one and two shall not exceed the value of 50 days of accrued, but unused sick leave.

Receipt of payment for accrued but unused sick leave eliminates all sick leave credit accrued by the employee.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 - COMPENSATED ABSENCES - (Continued)

The Board pays severance pay to the estate or life insurance beneficiary of an employee who qualifies for retirement and who dies while actively employed.

Upon retirement, employees are entitled to compensation at their current rate of pay for all unused vacation leave to their credit up to a maximum of their earned, but unused vacation leave for the current year. Per diem of those individuals previously employed by the Seneca-Wyandot County Board of Education under 230 day contracts shall be calculated using 230 contract days.

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The ESC 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. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Employee Health Insurance

The ESC is a member of the North Central Ohio Joint Self-Insurance Association (the "Association"). This organization is a public entity risk pool (See Note 2.A.). The Association was established pursuant to Ohio Revised Code Section 9.833 in order to provide health care benefits.

Each member school ESC and educational service center pays premiums to the Association for employee medical, dental, vision, and life insurance premiums. The Association is responsible for the management and operations of the program. Upon withdrawal, the member is responsible for the payment of all Association liabilities to its employees, dependents and designated beneficiaries accruing as a result of the withdrawal. Upon termination of the Association, all ESC's claims would be paid without regard to the ESC's account balance. The Association Board of Directors has the right to return monies to an exiting member subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 2.A.). The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school ESC's pay an enrollment fee to the GRP to cover the costs of administering the program.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 10 - RISK MANAGEMENT – (Continued)

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school ESC's is calculated as one experience and a common premium rate is applied to all school ESC's in the GRP.

Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school ESC's that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, 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 publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements 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. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$448,645, \$449,765 and \$269,273, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 11 - PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or 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 DC Plan 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 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,020,357, \$988,611 and \$914,357, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$31,362 made by the ESC and \$22,401 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each 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 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$124,496, \$75,261 and \$149,627, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$28,871, \$26,747 and \$22,217, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law 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 Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$78,489, \$76,047 and \$70,335, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

NOTE 13 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$40.52 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. However, due to State funding cuts the ESC was only funded \$36.61 per ADM.

If additional funding is required and if a majority of the Boards of Education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$47.02 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating Boards approve or disapprove the apportionment. The districts to which the ESC provides services have agreed to pay \$6.50 per pupil to provide additional funding for services provided by the ESC.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 14 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the ESC. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

B. Litigation

The ESC is involved in no material litigation as either plaintiff or defendant.

NOTE 15 - OTHER COMMITMENTS

The ESC utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the ESC's commitments for encumbrances in the governmental funds were as follows:

Fund	Year-End Encumbrances
General fund	\$102,959
Other governmental	79,711
Total	<u>\$182,670</u>

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Earnings on investments	\$3,988	\$4,000	\$3,437	(\$563)
Tuition.	8,634,745	8,661,215	8,649,184	(12,031)
Classroom materials and fees	18,443	18,500	23,732	5,232
Contributions and donations	10,568	10,600	20,965	10,365
Other local revenues	1,100,829	1,104,203	759,922	(344,281)
Contract services.	4,877,344	4,892,296	4,233,887	(658,409)
Intergovernmental - state	3,152,134	3,161,797	3,183,178	21,381
Intergovernmental - federal	19,939	20,000		(20,000)
Total revenues	<u>17,817,990</u>	<u>17,872,611</u>	<u>16,874,305</u>	<u>(998,306)</u>
Expenditures:				
Current:				
Instruction:				
Regular	980,138	1,114,981	893,764	221,217
Special.	6,055,162	6,225,698	5,857,128	368,570
Other.	1,657	18,827	16,694	2,133
Support services:				
Pupil.	4,647,112	4,649,681	4,308,710	340,971
Instructional staff	2,503,467	2,490,459	2,368,037	122,422
Board of education	81,612	68,864	65,396	3,468
Administration.	1,273,920	1,213,099	1,175,827	37,272
Fiscal	625,430	583,456	546,818	36,638
Business	202,791	174,578	169,239	5,339
Operations and maintenance.	457,678	471,521	432,027	39,494
Pupil transportation	132,496	126,123	101,791	24,332
Central.	700,680	691,594	656,641	34,953
Operation of non-instructional services	101,235	141,182	123,768	17,414
Facilities acquisition and construction	344,178	1,070,000	656,151	413,849
Total expenditures	<u>18,107,556</u>	<u>19,040,063</u>	<u>17,371,991</u>	<u>1,668,072</u>
Excess/(deficiency) of revenues over (under) expenditures.	<u>(289,566)</u>	<u>(1,167,452)</u>	<u>(497,686)</u>	<u>669,766</u>
Other financing sources (uses):				
Refund of prior year's expenditures	51,841	52,000	28,727	(23,273)
Transfers in	72,018	72,239	72,236	(3)
Transfers (out).	(6,424)	(72,987)	(6,461)	(66,526)
Total other financing sources (uses)	<u>117,435</u>	<u>51,252</u>	<u>94,502</u>	<u>(89,802)</u>
Net change in fund balance	(172,131)	(1,116,200)	(403,184)	579,964
Fund balance at beginning of year	2,294,037	2,294,037	2,294,037	
Prior year encumbrances appropriated	92,858	92,858	92,858	
Fund balance at end of year	<u>\$2,214,764</u>	<u>\$1,270,695</u>	<u>\$1,983,711</u>	<u>\$579,964</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**NOTE TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Board approve appropriations and estimated resources. The ESC's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

While reporting financial position and changes in financial position/fund balance 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 and disbursements plus encumbrances.

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	
	<u>General fund</u>
Budget basis	(\$403,184)
Net adjustment for revenue accruals	(84,120)
Net adjustment for expenditure accruals	(283,513)
Net adjustment for other sources/uses	(28,727)
Funds budgeted elsewhere	15,877
Adjustment for encumbrances	<u>258,167</u>
GAAP basis	<u><u>(\$525,500)</u></u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund, the employee benefits-self insurance fund and the termination benefits fund.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**NOTE TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Budgetary Prior Period Adjustment

In prior years, certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The ESC has elected to report, only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

	<u>General</u>
Fund cash balance at June 30, 2010	\$2,333,838
Funds budgeted elsewhere	<u>(39,801)</u>
Restated fund cash balance at July 1, 2010	<u><u>\$2,294,037</u></u>

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**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
<u>Nutrition Cluster:</u>			
National School Lunch Program	10.555	\$32,929	\$32,367
National School Breakfast Program	10.553	1,317	1,317
Total U.S. Department of Agriculture - Nutrition Cluster		34,246	33,684
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
<u>Special Education Cluster:</u>			
Special Education Grants to States	84.027	1,276,379	1,223,357
Special Education Preschool Grant	84.173	161,856	164,067
ARRA - Special Preschool Grants	84.392	87,461	87,297
Total Special Education Cluster		1,525,696	1,474,721
<u>Title I Cluster:</u>			
Title I Grants to Local Educational Agencies	84.010	21,441	21,573
ARRA - Title I Grants to Local Educational Agencies	84.389	9,573	9,573
Total Title I Cluster		31,014	31,146
Twenty-First Century Community Learning Centers	84.287	9,367	9,374
LEP Title II	84.365	10,923	10,743
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Health:</i>			
<u>Early Intervention Services (IDEA) Cluster:</u>			
Help Me Grow	84.181	80,199	80,199
ARRA - Help Me Grow	84.393 A	25,486	25,486
Total Early Intervention Services (IDEA) Cluster		105,685	105,685
Total U.S. Department of Education		1,682,685	1,631,669
<u>DEPARTMENT OF COMMERCE</u>			
<i>Passed Through Connected Nation:</i>			
ARRA - Broadband Technology Opportunities Program (BTOP)	11.557	5,409	5,409
Total Federal Receipts and Expenditures		\$1,722,340	\$1,670,762

The accompanying notes are an integral part of this schedule.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the North Central Ohio Educational Service Center's (the ESC's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The ESC commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the ESC assumes it expends federal monies first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the ESC to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The ESC has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



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*

North Central Ohio Educational Service Center
Seneca County
928 West Market Street
Tiffin, Ohio 44883-2529

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC), as of and for the year ended June 30, 2011, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated December 20, 2011. 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 ESC's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the ESC's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the ESC'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 ESC'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 ESC'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.auditor.state.oh.us

North Central Ohio Educational Service Center
Seneca County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Governing Board, federal awarding agencies and pass-through entities and others within the ESC. 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 "D" and "Y".

Dave Yost
Auditor of State

December 20, 2011



Dave Yost • Auditor of State

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

North Central Ohio Educational Service Center
Seneca County
928 West Market Street
Tiffin, Ohio 44883-2529

To the Governing Board:

Compliance

We have audited the compliance of North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the ESC's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the ESC's major federal program. The ESC's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the ESC's compliance based on our audit.

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

In our opinion, the North Central Ohio Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The ESC's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the ESC's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the ESC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style with a large loop at the end of the last name.

Dave Yost
Auditor of State

December 20, 2011

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster – CFDA # 84.027, 84.173 and 84.392
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 10, 2012**

Three Year Financial History: Franklin County Board of Developmental Disabilities

**Franklin County Board of DD
Financial Data
For the Year Ended December 31, 2009**

Receipts:

Local:

Tax levy	\$152,858,980
Active Treatment	8,893,969
Student services	642,933
Sale of property	35,556
Insurance reimbursements	20,643
Grants, gifts and donations	34,162
Other, including rental of real estate	1,408,583

State:

Ohio Department of Taxation:	
Personal Property Tax Replacement	15,775,667
Other tax based reimbursements	18,311,076
Ohio Department of Education:	
Preschool	2,758,519
School-Age	4,777,848
Transportation	973,312
Ohio Department of Mental Retardation and Developmental Disabilities:	
Supported living	2,609,652
Operating subsidy	1,607,330
Case management	605,498
Family resources	619,932
Other	574,863
Reconciliation of prior year match	3,061,802

Federal:

Habilitation	24,133,380
Targeted Case Management	2,770,914
Title XX	818,971
Department of Education	755,400
Medicaid Administrative Claiming	315,147
Job Access Reverse Commute	457,245
Rehabilitation Services Commission	611,746
School lunch	51,276

Total receipts **\$245,484,404**

Disbursements:

Personal services	\$ 63,239,296
Fringe benefits	28,685,799
Services and materials	110,829,498
Capital outlay	4,219,079

Total disbursements **\$ 206,973,672**

Consistent with the Board's commitment to the community, receipts will exceed revenues in the early years of a levy cycle to offset deficits in later years of the levy cycle.

During the year, the Board received \$2,883,460 in federal stimulus funds from the Ohio Department of Developmental Disabilities and disbursed \$2,211,580.

**Franklin County Board of DD
Financial Data
For the Year Ended December 31, 2010**

Receipts:

Local:

Tax levy	\$154,865,596
Active Treatment	6,536,665
Student services	573,701
Sale of property	54,223
Insurance reimbursements	18,555
Grants, gifts and donations	28,452
Other, including rental of real estate	1,143,214

State:

Ohio Department of Taxation:	
Personal Property Tax Replacement	16,128,057
Other tax based reimbursements	18,092,525
Ohio Department of Education:	
Preschool	2,263,278
School-Age	4,588,600
Transportation	770,690
Ohio Department of Mental Retardation and Developmental Disabilities:	
Supported living	3,236,937
Operating subsidy	2,002,812
Case management	734,488
Family resources	651,758
Other	70,621
Reconciliation of prior year match	2,621,946

Federal:

Adult day supports	17,283,324
2003 Cost Report Settlement	5,432,658
Targeted Case Management	5,306,581
Title XX	1,140,202
Department of Education	743,879
Medicaid Administrative Claiming	1,243,039
Job Access Reverse Commute	231,413
Rehabilitation Services Commission	1,908,219
School lunch	67,855

Total receipts **\$247,739,288**

Disbursements:

Personal services	\$ 62,044,279
Fringe benefits	30,234,532
Services and materials	119,974,725
Capital outlay	1,706,169

Total disbursements **\$ 213,959,705**

Consistent with the Board's commitment to the community, receipts will exceed revenues in the early years of a levy cycle to offset deficits in later years of the levy cycle.

During the year, the Board received \$2,988,255 in federal stimulus funds from the Ohio Department of Developmental Disabilities and disbursed \$552,895.

**Franklin County Board of DD
Financial Data
For the Year Ended December 31, 2011**

Receipts:

Local:

Tax levy	\$152,687,821
Active Treatment	6,665,429
Student services	341,213
Sale of property	82,485
Insurance reimbursements	18,755
Grants, gifts and donations	33,145
Other, including rental of real estate	1,024,520

State:

Ohio Department of Taxation:	
Personal Property Tax Replacement	11,238,861
Other tax based reimbursements	17,424,907
Ohio Department of Education:	
Preschool	2,795,330
School-Age	4,459,303
Transportation	841,431
Ohio Department of Mental Retardation and Developmental Disabilities:	
Subsidy	4,550,245
Family resources	632,283
Other	70,621
Reconciliation of prior year match	827,753

Federal:

Adult day supports	12,609,082
Targeted Case Management	4,008,634
Title XX	1,129,133
Department of Education	677,063
Medicaid Administrative Claiming	1,406,441
Job Access Reverse Commute	967,866
Rehabilitation Services Commission	1,888,515
School lunch	65,167

Total receipts **\$226,446,003**

Disbursements:

Personal services	\$ 62,130,074
Fringe benefits	28,577,983
Services and materials	122,672,102
Capital outlay	1,279,531

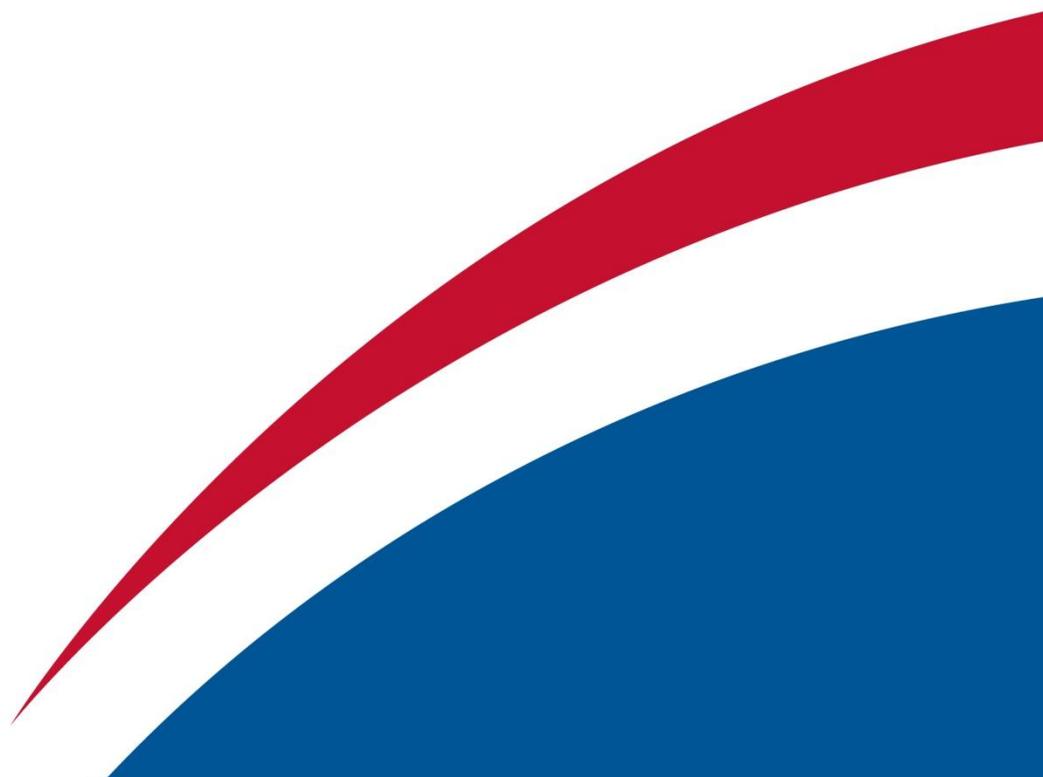
Total disbursements **\$ 214,659,690**

Consistent with the Board's commitment to the community, receipts will exceed revenues in the early years of a levy cycle to offset deficits in later years of the levy cycle.



Section Five:

Supporting Documentation



Feasibility Study Determination

Chris Downey

From: Potter, Nyla <Nyla.Potter@development.ohio.gov> on behalf of lgif <lgif@development.ohio.gov>
Sent: Tuesday, February 28, 2012 9:29 AM
To: Chris Downey
Subject: RE: Local Government Innovation Fund Loan Feasibility Study
Attachments: image001.png

Chris,

We welcome your application.

Thank you.

Nyla Potter

Loan Officer

Office of Redevelopment

614-728-0989

Nyla.Potter@development.ohio.gov

Email to and from the Ohio Department of Development is open to public inspection under Ohio's public record law. Unless a legal exemption applies, this message and any response to it will be released if requested.

The State of Ohio is an Equal Opportunity Employer and Provider of ADA Services.

From: Chris Downey [mailto:Chris.Downey@fcsc.org]
Sent: Monday, February 27, 2012 8:40 AM
To: lgif
Subject: RE: Local Government Innovation Fund Loan Feasibility Study

Ms. Potter,

I would like to follow up on the Educational Service Center of Central Ohio's feasibility study for a LGIF loan proposal. Has the feasibility study been approved by the Department of Development?

Thanks,

Chris Downey

From: Potter, Nyla [<mailto:Nyla.Potter@development.ohio.gov>] **On Behalf Of** lgif
Sent: Wednesday, February 15, 2012 3:02 PM
To: Chris Downey
Subject: RE: Local Government Innovation Fund Loan Feasibility Study

Thank you for submitting your feasibility study for LGIF loan consideration. We will contact you with any questions.



Department of
Development

Nyla Potter
Loan Officer

Office of Redevelopment

77 South High Street
Columbus, Ohio 43215
614-728-0989 F 614.466.4172

Nyla.Potter@development.ohio.gov

Email to and from the Ohio Department of Development is open to public inspection under Ohio's public record law. Unless a legal exemption applies, this message and any response to it will be released if requested.

The State of Ohio is an Equal Opportunity Employer and Provider of ADA Services.

From: Chris Downey [<mailto:Chris.Downey@fcesc.org>]
Sent: Wednesday, February 15, 2012 9:33 AM
To: lgif
Subject: Local Government Innovation Fund Loan Feasibility Study

To Whom it May Concern,

Attached is the feasibility study for a loan application that the Educational Service Center of Central Ohio, the North Central Educational Service Center, and the Franklin County Board of Developmental Disabilities will apply for as part of the Local Government Innovation Fund program.

Please contact us if you have any questions. Thank you for considering our proposal.

Chris Downey

Executed Partnership Agreements

Agreement of Partnership

Between the Educational Service Center of Central Ohio and the North Central Ohio Educational Service Center

Regarding the Local Government Innovation Fund for the Related Services Scheduling and Medicaid Reimbursement Project

Responsibilities of project partners will include, but not be limited to, the following:

- Participate in the piloting of the District Management Council's related service scheduling software
- Adhere to the policies and requirements of the Local Government Innovation Fund, including
 - Maintaining all necessary documentation for project reporting and evaluation
 - Providing required data and information for quarterly reports to the Local Government Innovation Council
 - Providing all necessary data and information required for the Local Government Innovation Council's report to the Governor and General Assembly due January 31, 2013

This agreement will become effective upon the award of a loan by the Local Government Innovation Council to the Educational Service Center of Central Ohio and its partners, and will remain effective through the duration of the project. In the event either party wishes to be released from this agreement, 90 days written notice is required to the other party.

Signatories

Educational Service Center of Central Ohio



Signature _____

Printed Name Bart Anderson

Title Superintendent

Date 2/28/12

North Central Ohio Educational Service Center

Signature James A. Lahoski Ph. D.

Printed Name JAMES A. LAHOSKI

Title Superintendent / CEO

Date 02/24/12

Agreement of Partnership

Between the Educational Service Center of Central Ohio and the Franklin County Board of Developmental Disabilities

Regarding the Local Government Innovation Fund for the Related Services Scheduling and Medicaid Reimbursement Project

Responsibilities of project partners will include, but not be limited to, the following:

- Participate in the piloting of the District Management Council's related service scheduling software
- Adhere to the policies and requirements of the Local Government Innovation Fund, including
 - Maintaining all necessary documentation for project reporting and evaluation
 - Providing required data and information for quarterly reports to the Local Government Innovation Council
 - Providing all necessary data and information required for the Local Government Innovation Council's report to the Governor and General Assembly due January 31, 2013

This agreement will become effective upon the award of a loan by the Local Government Innovation Council to the Educational Service Center of Central Ohio and its partners, and will remain effective through the duration of the project. In the event either party wishes to be released from this agreement, 90 days written notice is required to the other party.

Signatories

Educational Service Center of Central Ohio

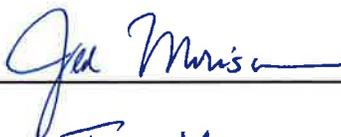
Signature  _____

Printed Name Bart Anderson _____

Title Superintendent _____

Date 2/28/12 _____

Franklin County Board of Developmental Disabilities

Signature  _____

Printed Name JED MORISON _____

Title SUPERINTENDENT _____

Date 2/28/12 _____

Governing Board Resolutions of Support



RESOLUTION APPROVING APPLICATION TO THE LOCAL GOVERNMENT INNOVATION FUND

Recommend the Governing Board support and authorize application to the State of Ohio Department of Development's Local Government Innovation Fund, in the amount of \$300,000.00, in partnership with the North Central Educational Service Center and the Franklin County Board of Developmental Disabilities, to be used to optimize the scheduling of related services staff and maximize the reimbursement of Medicaid-eligible services.

Certification

I hereby certify that the foregoing resolution was duly adopted by the Board of Education of the Educational Service Center of Central Ohio on February 24, 2012 at a duly called regular meeting of said Board.



Alan Hutchinson, Treasurer/CFO
Educational Service Center of Central Ohio

RESOLUTION NO. NCO-12-15

A RESOLUTION OF SUPPORT APPROVING AND AUTHORIZING THE NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER TO PARTICIPATE IN AN APPLICATION FOR A LOCAL GOVERNMENT INNOVATION FUND GRANT THROUGH THE STATE OF OHIO

WHEREAS, the Board of Governors of the North Central Ohio Educational Service Center (NCOESC) has expressed an interest in collaboratively partnering with other Ohio municipalities, townships, school districts and counties in order to participate as an applicant for a Local Government Innovation Fund Grant (the "LGIF Grant") through the State of Ohio, with the North Central Ohio Educational Service Center being the main applicant;

WHEREAS, the NCOESC believes that it is in its best interest to join the application for the LGIF Grant.

NOW, THEREFORE, BE IT RESOLVED by the Board of Governors of the North Central Ohio Educational Service Center of Tiffin, Ohio, that:

Section 1. It is in the best interests of the Board of Governors of the North Central Ohio Educational Service Center for it, to authorize and approve the NCOESC to join the application for the LGIF Grant.

Section 2. The Board of Governors of the North Central Ohio Educational Service Center hereby authorizes and approves the Council to join the application for the LGIF Grant and hereby promises to provide the resources necessary for the Board of Governors of the North Central Ohio Educational Service Center to join the LGIF Grant.

Section 3. The Board of Governors of the North Central Ohio Educational Service Center hereby authorizes and approves the superintendent of the NCOESC to join the LGIF Grant as a collaborative partner and an applicant by executing that certain Letter of Intent substantially in the form as attached to this Resolution.

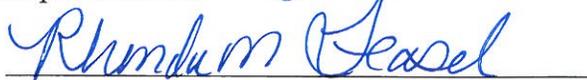
Section 4. The Board of Governors of the North Central Ohio Educational Service Center hereby authorizes and approves the superintendent of the NCOESC to join the LGIF Grant as a collaborative partner and an applicant by executing and entering into that certain Memorandum of Understanding between the partners substantially in the form as attached to this Resolution.

Section 5. This Board of Governors finds and determines that all formal actions of the NCOESC Board of Governors and any of its committees concerning and relating to the adoption of this resolution, and that all deliberations of this Board of Governors or any of its committees that resulted in those formal actions, occurred in meetings open to the public in compliance with the laws of the State.

Passed: February 21, 2012



Superintendent



Treasurer

Audit Documentation

All financial and audit documentation is provided in Section Four: Financial Documentation of this proposal.

2010 US Census Documentation

Delaware County	174,214	Franklin County	1,163,414	Marion County	66,501
Berkshire Township	3,085	Blendon Township	9,069	Big Island Township	1,205
Berlin Township	6,498	Brown Township	2,293	Bowling Green Township	650
Brown Township	1,416	City of Bexley	13,057	Claridon Township	2,742
City of Columbus	4,738	City of Columbus	770,122	Grand Township	391
City of Delaware	34,472	City of Dublin	35,367	Grand Prairie Township	1,590
City of Westerville	7,789	City of Grandview Heights	6,536	Green Camp Township	1,179
Concord Township	9,294	City of Upper Arlington	33,771	Marion Township	44,749
Delaware Township	2,152	City of Westerville	28,328	Montgomery Township	2,330
Genoa Township	23,093	City of Whitehall	18,062	Pleasant Township	4,773
Harlem Township	3,953	Clinton Township	4,109	Prospect Township	2,089
Kingston Township	2,156	Franklin Township	10,271	Richland Township	1,635
Liberty Township	26,172	Hamilton Township	8,260	Salt Rock Township	673
Marlboro Township	281	Jackson Township	40,608	Scott Township	498
Orange Township	26,269	Jefferson Township	10,972	Tully Township	854
Oxford Township	987	Madison Township	23,509	Waldo Township	1,143
Porter Township	1,923	Mifflin Township	35,710		
Radnor Township	1,540	Norwich Township	31,807		
Scioto Township	2,993	Perry Township	3,637		
Thompson Township	684	Plain Township	9,829		
Trenton Township	2,190	Pleasant Township	6,671		
Troy Township	2,115	Prairie Township	16,498		
Village of Ashley	1,330	Sharon Township	15,969		
Village of Shawnee Hills	681	Truro Township	26,837		
Village of Sunbury	4,385	Village of Marble Cliff	573		
Washington Township	4,018	Washington Township	1,549		

Sandusky County	60,944
Ballville Township	5,985
City of Bellevue	4,527
City of Clyde	6,325
City of Fremont	16,734
Green Creek Township	3,646
Jackson Township	1,608
Madison Township	3,850
Rice Township	1,370
Riley Township	1,226
Sandusky Township	3,619
Scott Township	1,437
Townsend Township	1,620
Village of Green Springs	738
Washington Township	2,332
Woodville Township	3,395
York Township	2,532

Seneca County	56,745
Adams Township	1,320
Big Spring Township	1,769
Bloom Township	1,799
City of Fostoria	9,471
City of Tiffin	17,963
Clinton Township	4,109
Eden Township	2,188
Hopewell Township	2,774
Jackson Township	1,512
Liberty Township	2,035
Loudon Township	2,140
Pleasant Township	1,635
Reed Township	848
Scipio Township	1,729
Seneca Township	1,622
Thompson Township	1,443
Venice Township	1,758
Village of Green Springs	630

Union County	52,300
Allen Township	2,263
Claibourne Township	3,519
Darby Township	2,060
Dover Township	2,158
Jackson Township	966
Jerome Township	7,541
Leesburg Township	1,414
Liberty Township	1,948
Millcreek Township	1,305
Paris Township	23,645
Taylor Township	1,560
Union Township	1,763
Washington Township	824
York Township	1,334

Wyandot County	22,615
Antrim Township	1,243
Crane Township	7,514
Crawford Township	4,789
Eden Township	1,092
Jackson Township	561
Marseilles Township	480
Mifflin Township	804
Pitt Township	1,012
Richland Township	871
Ridge Township	524
Salem Township	1,001
Sycamore Township	1,600
Tymochtee Township	1,124

Local Government Innovation Fund Program

Application Score £ £

Lead Applicant	
Project Name	

	Grant Application
--	--------------------------

or

	Loan Application
--	-------------------------

The Local Government Innovation Fund Council
77 South High Street
P.O. Box 1001
Columbus, Ohio 43216-1001
(614) 995-2292

Local Government Innovation Fund Project Scoring Sheet

Section 1: Financing Measures

Financing Measures	Description	Criteria	Max Points	Applicant Self Score	Validated Score
Financial Information	<i>Applicant includes financial information (i.e., service related operating budgets) for the most recent three years and the three year period following the project. The financial information must be directly related to the scope of the project and will be used as the cost basis for determining any savings resulting from the project.</i>	Applicant provides a thorough, detailed and complete financial information	5		
		Applicant provided more than minimum requirements but did not provide additional justification or support	3		
		Applicant provided minimal financial information	1		
		Points			
Repayment Structure (Loan Only)	<i>Applicant demonstrates a viable repayment source to support loan award. Secondary source can be in the form of a debt reserve, bank participation, a guarantee from a local entity, or other collateral (i.e., emergency rainy day, or contingency fund, etc.).</i>	Applicant clearly demonstrates a secondary repayment source.	5		
		Applicant does not have a secondary repayment source.	0		
		Points			
Local Match	<i>Percentage of local matching funds being contributed to the project. This may include in-kind contributions.</i>	70% or greater	5		
		40-69.99%	3		
		10-39.99%	1		
		Points			
Total Section Points					

Section 2: Collaborative Measures

Collaborative Measures	Description	Criteria	Max Points	Applicant Self Score	Validated Score
Population	<i>Applicant's population (or the population of the area(s) served) falls within one of the listed categories as determined by the U.S. Census Bureau. Population scoring will be determined by the smallest population listed in the application. Applications from (or collaborating with) small communities are preferred.</i>	Applicant (or collaborative partner) is not a county and has a population of less than 20,000 residents	5		
		Applicant (or collaborative partner) is a county but has less than 235,000	5		
		Applicant (or collaborative partner) is not a county but has a population 20,001 or greater.	3		
		Applicant (or collaborative partner) is a county with a population of 235,001 residents or more	3		
		Points			
Participating Entities	<i>Applicant has executed partnership agreements outlining all collaborative partners and participation agreements and has resolutions of support. (Note: Sole applicants only need to provide a resolution of support from its governing entity.)</i>	More than one applicant	5		
		Single applicant	1		
		Points			
Total Section Points					

Local Government Innovation Fund Project Scoring Sheet

Section 3: Success Measures

Success Measures	Description	Criteria	Points	Applicant Self Score	Validated Score
Expected Return	Applicant demonstrates as a percentage of savings (i.e., actual savings, increased revenue, or cost avoidance) an expected return. The return must be derived from the applicant's cost basis. The expected return is ranked in one of the following percentage categories:	75% or greater	30		
		25.01% to 74.99%	20		
		Less than 25%	10		
			Points		
Past Success	Applicant has successfully implemented, or is following project guidance from a shared services model, for an efficiency, shared service, coproduction or merger project in the past.	Yes	5		
		No	0		
			Points		
Scalable/Replicable Proposal	Applicant's proposal can be replicated by other local governments or scaled for the inclusion of other local governments.	The project is both scalable and replicable	10		
		The project is either scalable or replicable	5		
		Does not apply	0		
			Points		
Probability of Success	Applicant provides a documented need for the project and clearly outlines the likelihood of the need being met.	Provided	5		
		Not Provided	0		
			Points		
Total Section Points					

Section 4: Significance Measures

Significance Measures	Description	Criteria	Points Assigned	Applicant Self Score	Validated Score
Performance Audit Implementation /Cost Benchmarking	The project implements a single recommendation from a performance audit provided by the Auditor of State under Chapter 117 of the Ohio Revised Code or is informed by cost benchmarking.	Project implements a recommendation from an audit or is informed by benchmarking	5		
		Project does not implement a recommendation from an audit and is not informed by benchmarking	0		
			Points		
Economic Impact	Applicant demonstrates the project will a promote business environment (i.e., demonstrates a business relationship resulting from the project) and will provide for community attraction (i.e., cost avoidance with respect to taxes)	Applicant clearly demonstrates economic impact	5		
		Applicant mentions but does not prove economic impact	3		
		Applicant does not demonstrate an economic impact	0		
			Points		
Response to Economic Demand	The project responds to current substantial changes in economic demand for local or regional government services.	Yes	5		
		No	0		
			Points		
Total Section Points					

Section 5: Council Measures			
Council Measures	Description	Criteria	Points Assigned
Council Preference	Council Ranking for Competitive Rounds	The Applicant Does Not Fill Out This Section; This is for the Local Government Innovation Fund Council only. The points for this section is based on the applicant demonstrating innovation or inventiveness with the project	
Total Section Points (10max)			

Scoring Summary		
	Applicant Self Score	Validated Score
Section 1: Financing Measures		
Section 2: Collaborative Measures		
Section 3: Success Measures		
Section 4: Significance Measures		
Total Base Points:		

Reviewer Comments



April 2, 2012

Chris Downey
Educational Service Center of Central Ohio
2080 Citygate Dr.
Columbus, Ohio 43219

RE: Application Cure Letter

Dear Chris Downey:

The Ohio Department of Development (Development) has received and is currently reviewing your application for Round 1 of Local Government Innovation Fund program. During this review Development has determined that additional information is needed for your application. The identified item(s) requiring your attention are listed on the attached page(s). Please respond only to the issues raised. Failure to fully address all the identified items could lead to a competitive score reduction or ineligibility for Round 1 of the Local Government Innovation Fund program. **A written response from the applicant to this completeness review is due to Development no later than 5:00 p.m. on April 30, 2012.** Please send the response in a single email to lgif@development.ohio.gov and include "Cure—Project Name" in the subject line.

While this cure letter represents the additional information needed for Development review, the Local Government Innovation Council continues to reserve the right to request additional information about your application.

Thank you once again for your participation in Local Government Innovation program. Please contact the Office of Redevelopment at lgif@development.ohio.gov or 614-995-2292 if you have further questions regarding your application or the information requested in this letter.

Sincerely,

Thea J. Walsh, AICP
Deputy Chief, Office of Redevelopment
Ohio Department of Development

Local Government Innovation Fund Completeness Review

Applicant: Educational Service Center of Central Ohio
Project Name: Related Services Staff Scheduling and Medicaid Reimbursement
Request Type: Loan

Issues for Response

1. Budget

Please provide a line item budget that includes at minimum: 1) the sources of all funds being contributed to the project include **all** sources—cash, in-kind, etc.; 2) the uses of all funds (provide a line item for each use); 3) the total project costs (including the funding request **and** the local match. Please be sure that all uses of funds are eligible expenses as set forth in the program guidelines.

Example:

Collaboration Village's Project Budget

Sources of Funds

LGIF Request	\$100,000
Match Contribution (10%)	\$ 11,111
Total	\$111,111

Uses of Funds

Consultant Fees for Study	\$111,111
Total	\$111,111

Total Project Cost: \$111,111

2. Match

A minimum of 10% match is required for all projects. Matching funds must be 10% of the **total project cost** (not 10% of the funding request). Please document your 10% match and provide evidence of the contribution.

For **in-kind contributions**, please provide documentation as outlined in section 2.06 of the Local Government Innovation Fund program policies. Certification of in-kind contributions may only be made for past investments. Anticipated in-kind contributions must be certified **after** the contribution is made.

3. Population Information and Documentation

Please provide documentation supporting population information provided using the 2010 U.S. Census. To access census information, you may visit the following website <http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml>.

4. Resolutions of Support

Resolutions of support must be provided by the governing body of the main applicant and each collaborative partner. If the collaborative partner is a private entity with no governing body, a letter of support **for the project** is required.



Local Government Innovation Grant – Application Cure Response

Related Services Staff Scheduling and Medicaid Reimbursement Project

Submitted By:

Educational Service Center of Central Ohio

Franklin County Board of Developmental Disabilities

North Central Ohio Educational Service Center

Submitted April 13, 2012

Application Cure pagResponse

Issue One: Budget

Table 1.1 below depicts the project’s budget. As noted in the table, a total of \$1,331,400.00 will be spent on this project, which is anticipated to cover a three-year period. The partnering agencies have requested \$300,000.00 in LGIF loan funding. The partners will provide \$1,031,400.00, or 77.47 percent of the total project budget, as a matching contribution.

Table 1.1 Itemized Project Budget

Sources of Funds

LGIF Request	\$300,000.00
Match Contribution (77.47%)	\$1,031,400.00
Total	\$1,331,400.00*

Use of Funds

District Management Council dmStaffing software	\$1,331,400.00*
Total	\$1,331,400.00*

*Based on estimated costs provided by District Management Council

Any funding awarded by the Local Government Innovation Council will be allocated solely towards the cost of implementing the dmStaffing software system, and will not be used for other operational costs, such as salaries and benefits of practitioners.

Issue Two: Match

As described above in Issue One: Budget, the project partners will contribute an estimated \$1,031,400.00, or 77.47 percent, of the project’s \$1,331,400.00 budget in the form of local matching funds over the course of the project. These matching funds will be allocated from the partners’ general revenue funds. Costs are expected to be equal amongst the three participating agencies as each employs roughly the same number of related services personnel.

Issue Three: Population Information and Documentation

Documentation from the US Census Bureau supporting municipalities served and population using 2010 Census data can be found in Appendices A – C.

Issue Four: Resolutions of Support

Resolutions of support for the project from each of the partnering agencies are provided in Appendix D.

Appendix A: Population and Municipalities within the ESC of Central Ohio's Service Area



P1

TOTAL POPULATION
 Universe: Total population
 2010 Census Summary File 1

Note: This is a modified view of the original table.

NOTE: For information on confidentiality protection, nonsampling error, and definitions, see <http://www.census.gov/prod/cen2010/doc/sf1.pdf>.

Geography	Total
Ashley village, Ohio	1,330
Bexley city, Ohio	13,057
Blacklick Estates CDP, Ohio	8,682
Brice village, Ohio	114
Canal Winchester village, Ohio	7,101
Columbus city, Ohio	787,033
Darbydale CDP, Ohio	793
Delaware city, Ohio	34,753
Dublin city, Ohio	41,751
Gahanna city, Ohio	33,248
Galena village, Ohio	653
Grandview Heights city, Ohio	6,536
Grove City city, Ohio	35,575
Groveport village, Ohio	5,363
Harrisburg village, Ohio	320
Hilliard city, Ohio	28,435
Huber Ridge CDP, Ohio	4,604
Kilbourne CDP, Ohio	139
Lake Darby CDP, Ohio	4,592
Lincoln Village CDP, Ohio	9,032
Lithopolis village, Ohio	1,106
Lockbourne village, Ohio	237
Magnetic Springs village, Ohio	268
Marble Cliff village, Ohio	573
Marysville city, Ohio	22,094
Milford Center village, Ohio	792
Minerva Park village, Ohio	1,272
New Albany village, Ohio	7,724
New California CDP, Ohio	1,411
Obetz village, Ohio	4,532
Ostrander village, Ohio	643
Pickerington city, Ohio	18,291
Plain City village, Ohio	4,225
Powell city, Ohio	11,500
Radnor CDP, Ohio	201
Raymond CDP, Ohio	257
Reynoldsburg city, Ohio	35,893
Richwood village, Ohio	2,229
Riverlea village, Ohio	545
Shawnee Hills village, Ohio	681
Sunbury village, Ohio	4,389
Unionville Center village, Ohio	233
Upper Arlington city, Ohio	33,771
Urbancrest village, Ohio	960

Geography	Total
Valleyview village, Ohio	620
Westerville city, Ohio	36,120
Whitehall city, Ohio	18,062
Worthington city, Ohio	13,575

Source: U.S. Census Bureau, 2010 Census.

***Appendix B: Population and Municipalities within the Franklin County
Board of Developmental Disabilities' Service Area***



P1

TOTAL POPULATION
Universe: Total population
2010 Census Summary File 1

Note: This is a modified view of the original table.

NOTE: For information on confidentiality protection, nonsampling error, and definitions, see <http://www.census.gov/prod/cen2010/doc/sf1.pdf>.

Geography	Total
Bexley city, Ohio	13,057
Blacklick Estates CDP, Ohio	8,682
Brice village, Ohio	114
Canal Winchester village, Ohio	7,101
Columbus city, Ohio	787,033
Darbydale CDP, Ohio	793
Dublin city, Ohio	41,751
Gahanna city, Ohio	33,248
Grandview Heights city, Ohio	6,536
Grove City city, Ohio	35,575
Groveport village, Ohio	5,363
Harrisburg village, Ohio	320
Hilliard city, Ohio	28,435
Huber Ridge CDP, Ohio	4,604
Lake Darby CDP, Ohio	4,592
Lincoln Village CDP, Ohio	9,032
Lithopolis village, Ohio	1,106
Lockbourne village, Ohio	237
Marble Cliff village, Ohio	573
Minerva Park village, Ohio	1,272
New Albany village, Ohio	7,724
Obetz village, Ohio	4,532
Pickerington city, Ohio	18,291
Reynoldsburg city, Ohio	35,893
Riverlea village, Ohio	545
Upper Arlington city, Ohio	33,771
Urbancrest village, Ohio	960
Valleyview village, Ohio	620
Westerville city, Ohio	36,120
Whitehall city, Ohio	18,062
Worthington city, Ohio	13,575

Source: U.S. Census Bureau, 2010 Census.

*Appendix C: Population and Municipalities within the North Central Ohio
ESC's Service Area*



P1

TOTAL POPULATION
Universe: Total population
2010 Census Summary File 1

Note: This is a modified view of the original table.

NOTE: For information on confidentiality protection, nonsampling error, and definitions, see <http://www.census.gov/prod/cen2010/doc/sf1.pdf>.

Geography	Total
Attica village, Ohio	899
Ballville CDP, Ohio	2,976
Bascom CDP, Ohio	390
Bellevue city, Ohio	8,202
Bettsville village, Ohio	661
Bloomville village, Ohio	956
Burgoon village, Ohio	172
Caledonia village, Ohio	577
Carey village, Ohio	3,674
Clyde city, Ohio	6,325
Elmore village, Ohio	1,410
Flat Rock CDP, Ohio	233
Forest village, Ohio	1,461
Fort Seneca CDP, Ohio	254
Fostoria city, Ohio	13,441
Fremont city, Ohio	16,734
Gibsonburg village, Ohio	2,581
Green Camp village, Ohio	374
Green Springs village, Ohio	1,368
Harpster village, Ohio	204
Helena village, Ohio	224
Hessville CDP, Ohio	214
Kansas CDP, Ohio	179
Kirby village, Ohio	118
La Rue village, Ohio	747
Lindsey village, Ohio	446
McCutchenville CDP, Ohio	400
Marion city, Ohio	36,837
Marseilles village, Ohio	112
Melmore CDP, Ohio	153
Morrall village, Ohio	399
Nevada village, Ohio	760
New Bloomington village, Ohio	515
New Riegel village, Ohio	249
Old Fort CDP, Ohio	186
Prospect village, Ohio	1,112
Republic village, Ohio	549
Stony Prairie CDP, Ohio	1,284
Sycamore village, Ohio	861
Tiffin city, Ohio	17,963
Upper Sandusky city, Ohio	6,596
Vickery CDP, Ohio	121
Waldo village, Ohio	338
Wharton village, Ohio	358

Geography	Total
Whites Landing CDP, Ohio	375
Wightmans Grove CDP, Ohio	72
Woodville village, Ohio	2,135

Source: U.S. Census Bureau, 2010 Census.

Appendix D: Governing Board Resolutions of Support



RESOLUTION APPROVING APPLICATION TO THE LOCAL GOVERNMENT INNOVATION FUND

Recommend the Governing Board support and authorize application to the State of Ohio Department of Development's Local Government Innovation Fund, in the amount of \$300,000.00, in partnership with the North Central Educational Service Center and the Franklin County Board of Developmental Disabilities, to be used to optimize the scheduling of related services staff and maximize the reimbursement of Medicaid-eligible services.

Certification

I hereby certify that the foregoing resolution was duly adopted by the Board of Education of the Educational Service Center of Central Ohio on February 24, 2012 at a duly called regular meeting of said Board.



Alan Hutchinson, Treasurer/CFO
Educational Service Center of Central Ohio

RESOLUTION NO. NCO-12-15

A RESOLUTION OF SUPPORT APPROVING AND AUTHORIZING THE NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER TO PARTICIPATE IN AN APPLICATION FOR A LOCAL GOVERNMENT INNOVATION FUND GRANT THROUGH THE STATE OF OHIO

WHEREAS, the Board of Governors of the North Central Ohio Educational Service Center (NCOESC) has expressed an interest in collaboratively partnering with other Ohio municipalities, townships, school districts and counties in order to participate as an applicant for a Local Government Innovation Fund Grant (the "LGIF Grant") through the State of Ohio, with the North Central Ohio Educational Service Center being the main applicant;

WHEREAS, the NCOESC believes that it is in its best interest to join the application for the LGIF Grant.

NOW, THEREFORE, BE IT RESOLVED by the Board of Governors of the North Central Ohio Educational Service Center of Tiffin, Ohio, that:

Section 1. It is in the best interests of the Board of Governors of the North Central Ohio Educational Service Center for it, to authorize and approve the NCOESC to join the application for the LGIF Grant.

Section 2. The Board of Governors of the North Central Ohio Educational Service Center hereby authorizes and approves the Council to join the application for the LGIF Grant and hereby promises to provide the resources necessary for the Board of Governors of the North Central Ohio Educational Service Center to join the LGIF Grant.

Section 3. The Board of Governors of the North Central Ohio Educational Service Center hereby authorizes and approves the superintendent of the NCOESC to join the LGIF Grant as a collaborative partner and an applicant by executing that certain Letter of Intent substantially in the form as attached to this Resolution.

Section 4. The Board of Governors of the North Central Ohio Educational Service Center hereby authorizes and approves the superintendent of the NCOESC to join the LGIF Grant as a collaborative partner and an applicant by executing and entering into that certain Memorandum of Understanding between the partners substantially in the form as attached to this Resolution.

Section 5. This Board of Governors finds and determines that all formal actions of the NCOESC Board of Governors and any of its committees concerning and relating to the adoption of this resolution, and that all deliberations of this Board of Governors or any of its committees that resulted in those formal actions, occurred in meetings open to the public in compliance with the laws of the State.

Passed: February 21, 2012



Superintendent



Treasurer



Franklin County Board of Developmental Disabilities

Helping people to live, learn and work in our community

2879 Johnstown Road • Columbus, Ohio 43219 • 614-475-6440 • www.fcbdd.org

Jed W. Morison
Superintendent

**RESOLUTION OF SUPPORT FOR COLLABORATIVE SHARED SERVICES
PROPOSAL**

Recommend the Board support and authorize application to the State of Ohio Local Government Innovation Fund, in partnership with the Educational Service Center of Central Ohio.

This funding will be used to optimize the scheduling of related services and maximize the reimbursement of Medicaid-eligible services.

Certification

I hereby certify that the foregoing resolution was duly adopted by the Franklin County Board of Developmental Disabilities on February 23, 2012, at a duly called regular meeting of said Board.

A handwritten signature in blue ink that reads "Jed W. Morison".

Jed W. Morison, Superintendent
Franklin County Board of Developmental Disabilities