



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

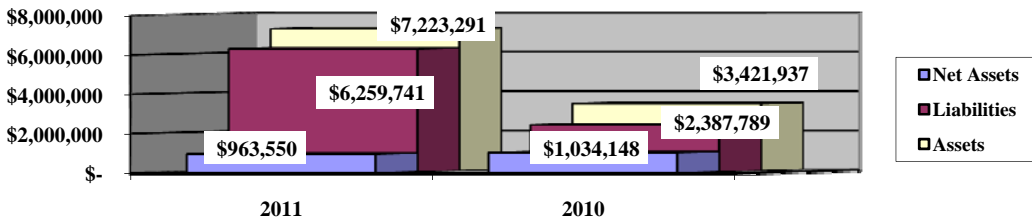
Recall that the statement of net assets provides the perspective of the ESC as a whole.

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
	<u>2011</u>	<u>2010</u>
<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	<u>19,199,829</u>	<u>17,826,417</u>
<u>Extraordinary items</u>		
Settlement revenues		791,108
Settlement payments		(600,391)
Total extraordinary items		<u>190,717</u>
Change in net assets	(70,598)	633,515
Net assets at beginning of year	<u>1,034,148</u>	<u>400,633</u>
Net assets at end of year	<u><u>\$963,550</u></u>	<u><u>\$1,034,148</u></u>

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.

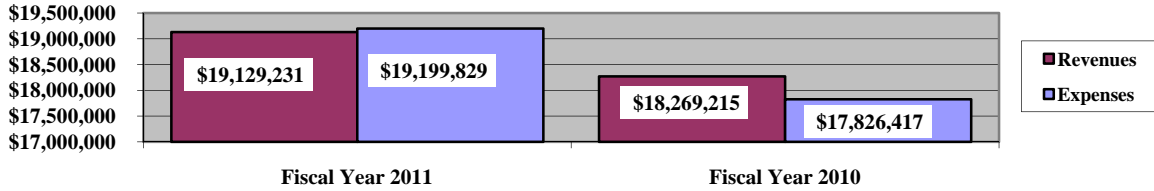
The largest expense of the ESC is for support services. Support services expenses totaled \$12,017,327 or 62.59% of total governmental expenses for fiscal 2011.

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>

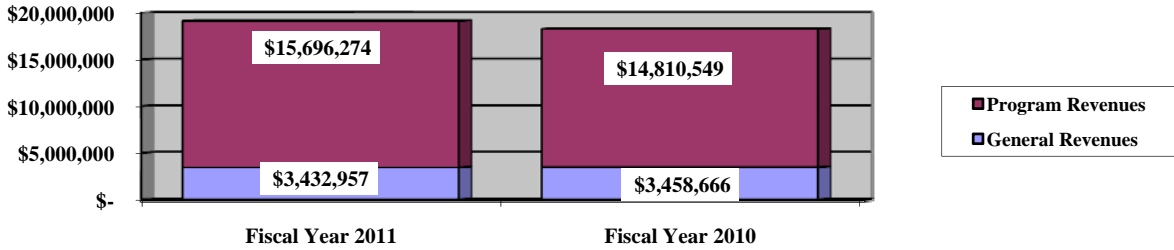
For all governmental activities, program revenue support is 81.75%. The primary support for the ESC is contracted fees for services provided to other districts.

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	<u>1,268,619</u>		<u>91,139</u>	<u>1,359,758</u>
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
 Total assets.	 2,680	 \$3,828,601
 Liabilities:		
Accounts payable.		\$2,892
Accrued wages and benefits		1,446
Pension obligation payable.		1,376
Intergovernmental payable		3,822,887
 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

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Additions:	
Gifts and contributions	\$8,500
Total additions.	<u>8,500</u>
Deductions:	
Scholarships awarded	<u>9,000</u>
Change in net assets.	(500)
Net assets at beginning of year	<u>3,180</u>
Net assets at end of year.	<u><u>\$2,680</u></u>

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.

**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)

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, 2011
(Continued)**

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.

**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)

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.

**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)

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>
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).

**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 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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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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(Continued)**

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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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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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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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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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>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(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
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(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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(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".

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(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
SENECA COUNTY**

**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
SENECA COUNTY**

**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
SENECA COUNTY**

**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
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, 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
SENECA COUNTY**

**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
SENECA COUNTY**

**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.

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**