



Dave Yost • Auditor of State

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

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Educational Service Center of Central Ohio, Franklin County, Ohio, as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2011, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

May 31, 2011

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The management's discussion and analysis of the Educational Service Center of Central Ohio's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- In total, net assets of governmental activities decreased \$2,743,617 which represents a 14% decrease from 2009.
- General revenues accounted for \$6,021,661 in revenue or 11.38% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$46,854,965 or 88.79% of total revenues of \$52,876,626.
- The Center had \$55,620,243 in expenses related to governmental activities; \$46,854,965 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) were adequate to provide for these programs.
- The Center's major governmental funds include the general fund and the miscellaneous federal grants special revenue fund. The general fund had \$46,455,315 in revenues and other financing sources and \$49,373,679 in expenditures and other financing uses. During fiscal year 2010, the general fund's fund balance decreased \$2,918,364 from \$14,621,302 to \$11,702,938.
- The miscellaneous federal grants special revenue fund had \$1,020,108 in revenues and other financing sources and \$1,151,623 in expenditures. During fiscal year 2010, its deficit balance increased \$131,515 from a deficit of \$10,598 to a deficit of \$142,113.

Using these Basic Financial Statements (BFS)

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

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

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The government-wide financial statements include not only the activity of the Center itself (known as the primary government), but also a separate entity which has been reported as a discretely presented component unit.

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

Reporting the Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Proprietary Fund

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

Reporting the Center's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-54 of this report.

The Center as a Whole

The statement of net assets provides the perspective of the Center as a whole. The table below provides a summary of the Center's net assets for 2010 and 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current and other assets	\$ 22,588,562	\$ 24,474,178
Capital assets	<u>6,167,260</u>	<u>5,836,529</u>
Total assets	<u>28,755,822</u>	<u>30,310,707</u>
<u>Liabilities</u>		
Current liabilities	7,040,907	5,858,051
Long-term liabilities	<u>5,219,881</u>	<u>5,214,005</u>
Total liabilities	<u>12,260,788</u>	<u>11,072,056</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,892,330	2,523,663
Restricted	1,589,882	2,588,889
Unrestricted	<u>12,012,822</u>	<u>14,126,099</u>
Total net assets	<u>\$ 16,495,034</u>	<u>\$ 19,238,651</u>

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

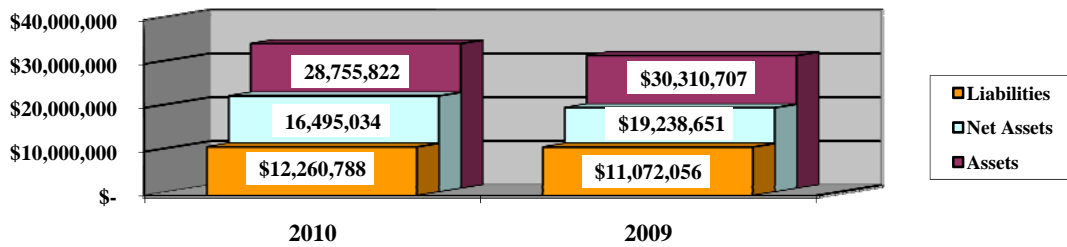
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the Center's assets exceeded liabilities by \$16,495,034. Of this total, \$12,012,822 is unrestricted in use.

At year-end, capital assets represented 21.46% of total assets. Capital assets include land, buildings, furniture and equipment and vehicles. Capital assets, net of related debt at June 30, 2010, were \$2,892,330. These capital assets are used to provide the Center's services and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net assets, \$1,589,882, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$12,012,822 may be used to meet the Center's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2010 and 2009.

Change in Net Assets

	Governmental Activities 2010	Governmental Activities 2009
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 37,243,045	\$ 41,730,856
Operating grants and contributions	9,611,920	10,641,393
General revenues:		
Grants and entitlements	5,536,482	4,560,256
Investment earnings	105,438	183,001
Other	379,741	366,092
Total revenues	\$ 52,876,626	\$ 57,481,598

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

	Change in Net Assets	
	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 755,216	\$ 493,580
Special	9,970,923	14,630,501
Vocational	-	507,440
Adult education	52,670	-
Support services:		
Pupil	9,473,212	2,791,348
Instructional staff	14,094,223	19,056,720
Board of education	85,030	81,161
Administration	13,544,778	10,813,723
Fiscal	3,200,531	2,469,813
Business	637,305	437,217
Operations and maintenance	1,100,398	656,126
Pupil transportation	252,939	36,919
Central	2,107,478	1,592,366
Operation of non-instructional services	104,831	580
Extracurricular	91,444	28,535
Interest and fiscal charges	<u>149,265</u>	<u>158,846</u>
Total expenses	<u>55,620,243</u>	<u>53,754,875</u>
Special item:		
Delaware-Union ESC net assets upon merger	<u>-</u>	<u>1,196,679</u>
Change in net assets	(2,743,617)	4,923,402
Net assets at beginning of year	<u>19,238,651</u>	<u>14,315,249</u>
Net assets at end of year	<u>\$ 16,495,034</u>	<u>\$ 19,238,651</u>

Governmental Activities

Net assets of the Center's governmental activities decreased \$2,743,617 during fiscal year 2010. Total governmental expenses of \$55,620,243 were offset by program revenues of \$46,854,965 and general revenues of \$6,021,661. Program revenues supported 84.20% of the total governmental expenses.

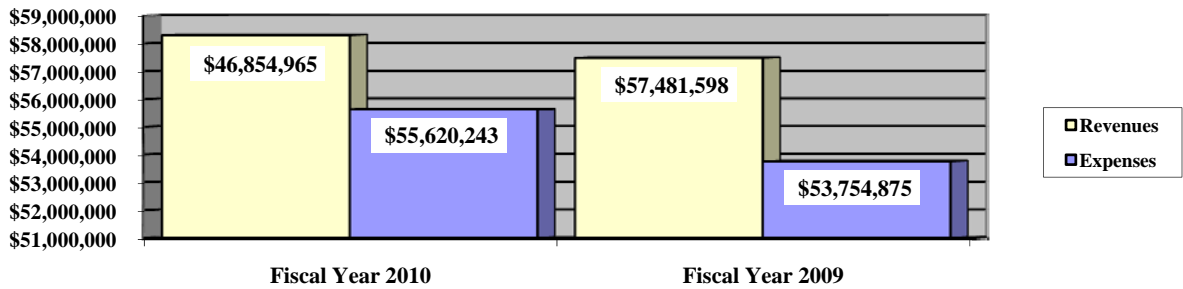
The primary sources of revenue for governmental activities are derived from tuition and contracted fees for services provided to other entities. This revenue source represents 79.48% of total governmental revenue.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2010 and 2009.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses				
Instruction:				
Regular	\$ 755,216	\$ 712,057	\$ 493,580	\$ 373,698
Special	9,970,923	1,967,632	14,630,501	(286,782)
Vocational	-	-	507,440	4,124
Other	52,670	52,670	-	-
Support services:				
Pupil	9,473,212	2,001,802	2,791,348	66,347
Instructional staff	14,094,223	1,793,420	19,056,720	376,140
Board of education	85,030	18,456	81,161	381
Administration	13,544,778	434,223	10,813,723	641,904
Fiscal	3,200,531	470,733	2,469,813	(89,743)
Business	637,305	143,057	437,217	4,824
Operations and maintenance	1,100,398	199,689	656,126	80,871
Pupil transportation	252,939	249,042	36,919	36,919
Central	2,107,478	376,957	1,592,366	(14,018)
Operation of non-instructional services	104,831	104,831	580	580
Extracurricular	91,444	91,444	28,535	28,535
Interest and fiscal charges	149,265	149,265	158,846	158,846
Total expenses	\$ 55,620,243	\$ 8,765,278	\$ 53,754,875	\$ 1,382,626

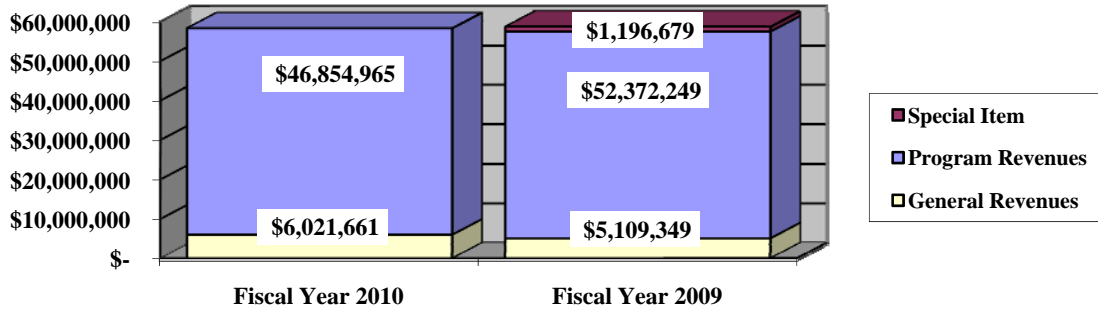
For all governmental activities, program revenue support is 84.24% at June 30, 2010 and 97.43% at June 30, 2009. The primary support of the Center is contracted fees for services provided to other districts.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The graph below presents the Center's governmental activities revenue for fiscal year 2010 and 2009.

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$12,081,749, which is lower than last year's total of \$15,133,266. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance (Deficit) <u>June 30, 2010</u>	Fund Balance (Deficit) <u>June 30, 2009</u>	<u>Decrease</u>
General	\$ 11,702,938	\$ 14,621,302	\$ (2,918,364)
Miscellaneous Federal Grants	(142,113)	(10,598)	(131,515)
Other Governmental	<u>520,924</u>	<u>522,562</u>	<u>(1,638)</u>
Total	<u>\$ 12,081,749</u>	<u>\$ 15,133,266</u>	<u>\$ (3,051,517)</u>

General Fund

The Center's general fund balance decreased in fiscal year 2010 by \$2,918,364. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Tuition	\$ 13,886,240	\$ 19,696,381	(29.50) %
Customer services	22,298,545	21,260,219	4.88 %
Earnings on investments	108,066	161,133	(32.93) %
Intergovernmental	9,465,852	4,560,256	107.57 %
Other revenues	<u>304,466</u>	<u>913,858</u>	(66.68) %
 Total	 <u>\$ 46,063,169</u>	 <u>\$ 46,591,847</u>	 (1.13) %
<u>Expenditures</u>			
Instruction	\$ 9,541,936	\$ 13,861,459	(31.16) %
Support services	38,102,214	27,546,526	38.32 %
Operation of non-instructional services	120,709	542	22,171.03 %
Extracurricular activities	91,490	28,533	220.65 %
Facilities acquisition and construction	394,863	-	100.00 %
Debt service	<u>418,976</u>	<u>321,438</u>	30.34 %
 Total	 <u>\$ 48,670,188</u>	 <u>\$ 41,758,498</u>	 16.55 %

Tuition revenues decreased and intergovernmental revenues increased as certain revenues were reclassified in fiscal year 2010. The Center experienced lower collections from member districts which contributed to the decrease in tuition revenues. This also led to an increase in deferred revenues for the general fund at fiscal year end. Earnings on investments decreased as a result of lower interest rates. Intergovernmental revenues increased due in part to additional grants received from both state and federal sources. Instruction expenditures decreased as the Center's spending on special instruction dropped. The increase in support services expenditures is the result of higher expenses for pupil and administrative support. Facilities acquisition and construction for fiscal year 2010 is related to the Center's new capital lease agreement entered into during the fiscal year. Debt service expenditures increased due to lease payments on the aforementioned lease.

Miscellaneous Federal Grants Fund

During fiscal year 2010, the miscellaneous federal grants fund balance decreased \$131,515. The decrease in fund balance can be attributed to a decrease in grant revenues received by fiscal year-end. Deferred grant revenues for 2010 are \$774,197. Revenues and other financing sources totaled \$1,020,108 and expenditures totaled \$1,151,623 during fiscal year 2010.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Capital Assets and Debt Administration

Capital Assets

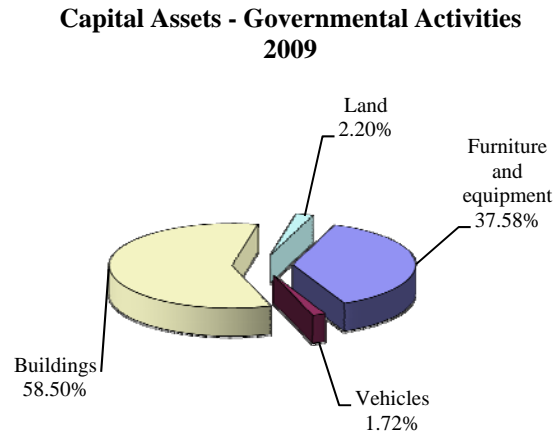
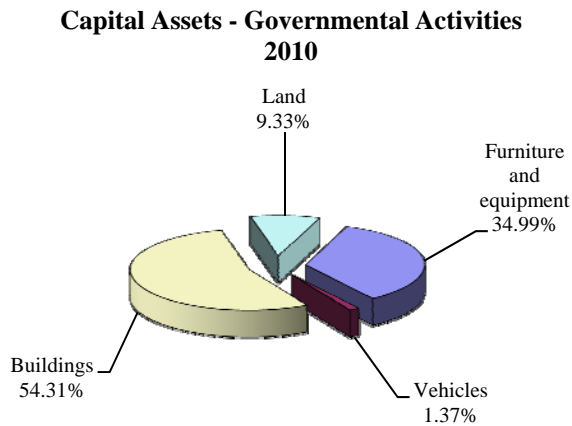
At the end of fiscal year 2010, the Center had \$6,167,260 invested in land, buildings, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2010 balances compared to 2009:

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

	Governmental Activities	
	2010	2009
Land	\$ 575,181	\$ 128,300
Buildings	3,349,610	3,414,317
Furniture and equipment	2,158,011	2,193,406
Vehicles	84,458	100,506
Total	\$ 6,167,260	\$ 5,836,529

Total additions to capital assets for 2010 were \$1,127,247. A total of \$741,606 in depreciation expense was recognized and disposals were \$54,910 (net of accumulated depreciation) for fiscal year 2010.

The graphs below present the Center's capital assets for fiscal years 2010 and 2009.



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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Debt Administration

At June 30, 2010 the Center had \$3,274,930 in a lease purchase and capital lease agreement outstanding. Of this total, \$288,125 is due within one year and \$2,986,805 is due in greater than one year. The following table summarizes the debt outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities 2010	Governmental Activities 2009
	<u>2010</u>	<u>2009</u>
Lease Purchase Agreement	\$ 2,968,000	\$ 3,153,000
Capital lease obligations	<u>306,930</u>	<u>159,866</u>
Total	<u>\$ 3,274,930</u>	<u>\$ 3,312,866</u>

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

Current Financial Related Activities

The Center is in a stable financial position at the end of June 2010. The Governing Board has a permanent improvement fund to cover possible future office space needs or payment of office building rental, and future technology equipment needs. Legislative requirements for the development of Ohio Educational Regional Service System will have an impact on educational service centers in the future. At this time, it is impossible to determine what effect this legislation will have on the Educational Service Center of Central Ohio.

Contacting the Center's Financial Management

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

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

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	<u>Component Unit</u>
Assets:		
Equity in pooled cash and cash equivalents. . .	\$ 15,879,482	\$ 512,512
Receivables:		
Accounts.	60,000	-
Intergovernmental	6,542,277	984,034
Accrued interest	28,699	-
Prepayments.	68,453	-
Loans	9,651	-
Capital assets:		
Land.	575,181	-
Depreciable capital assets, net.	5,592,079	-
Capital assets, net	<u>6,167,260</u>	<u>-</u>
 Total assets	 <u>28,755,822</u>	 <u>1,496,546</u>
 Liabilities:		
Accounts payable.	526,670	-
Accrued wages and benefits	3,531,836	577,781
Intergovernmental payable	988,406	252,360
Claims payable.	806,078	-
Accrued interest payable	11,020	-
Unearned revenue	1,176,897	-
Long-term liabilities:		
Due within one year.	945,836	-
Due in more than one year	4,274,045	-
 Total liabilities	 <u>12,260,788</u>	 <u>830,141</u>
 Net assets:		
Invested in capital assets, net of related debt.	2,892,330	-
Restricted for:		
Capital projects	453,908	-
Locally funded programs	91,017	-
State funded programs.	3,142	-
Federally funded programs	1,014,199	-
Student activities	205	-
Public school support	27,411	-
Unrestricted.	12,012,822	666,405
 Total net assets	 <u>\$ 16,495,034</u>	 <u>\$ 666,405</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>	<u>Component Unit</u>
				<u>Governmental Activities</u>	
Governmental activities:					
Instruction:					
Regular	\$ 755,216	\$ 32,620	\$ 10,539	\$ (712,057)	\$ -
Special	9,970,923	7,245,759	757,532	(1,967,632)	-
Other	52,670	-	-	(52,670)	-
Support services:					
Pupil.	9,473,212	7,326,568	144,842	(2,001,802)	-
Instructional staff	14,094,223	8,801,788	3,499,015	(1,793,420)	-
Board of education	85,030	66,574	-	(18,456)	-
Administration.	13,544,778	9,629,616	3,480,939	(434,223)	-
Fiscal.	3,200,531	1,462,301	1,267,497	(470,733)	-
Business.	637,305	494,248	-	(143,057)	-
Operations and maintenance	1,100,398	725,139	175,570	(199,689)	-
Pupil transportation.	252,939	-	3,897	(249,042)	-
Central	2,107,478	1,458,432	272,089	(376,957)	-
Operation of non-instructional services	104,831	-	-	(104,831)	-
Extracurricular activities.	91,444	-	-	(91,444)	-
Interest and fiscal charges	149,265	-	-	(149,265)	-
Total governmental activities	<u>\$ 55,620,243</u>	<u>\$ 37,243,045</u>	<u>\$ 9,611,920</u>	<u>(8,765,278)</u>	<u>-</u>
Component Unit:					
Educational Service Center					
Council of Governments	<u>\$ 8,753,314</u>	<u>\$ 9,289,074</u>	<u>\$ -</u>	<u>-</u>	<u>535,760</u>
General revenues:					
Grants and entitlements not restricted to specific programs				5,536,482	-
Investment earnings				105,438	-
Miscellaneous				379,741	-
Total general revenues				<u>6,021,661</u>	<u>-</u>
Change in net assets				(2,743,617)	535,760
Net assets at beginning of year.				<u>19,238,651</u>	<u>130,645</u>
Net assets at end of year				<u>\$ 16,495,034</u>	<u>\$ 666,405</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>General</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 13,613,935	\$ -	\$ 641,915	\$ 14,255,850
Receivables:				
Accounts	-	-	60,000	60,000
Intergovernmental	4,733,168	1,149,770	659,339	6,542,277
Accrued interest	28,699	-	-	28,699
Due from other funds	377,578	-	-	377,578
Loans to other funds	4,889	-	-	4,889
Prepayments	63,672	3,170	1,611	68,453
Loans	9,651	-	-	9,651
Total assets	<u>\$ 18,831,592</u>	<u>\$ 1,152,940</u>	<u>\$ 1,362,865</u>	<u>\$ 21,347,397</u>
Liabilities:				
Accounts payable	\$ 327,799	\$ 134,392	\$ 64,479	\$ 526,670
Accrued wages and benefits	3,374,533	39,577	117,726	3,531,836
Compensated absences payable	69,069	-	-	69,069
Intergovernmental payable	887,639	22,500	78,267	988,406
Due to other funds	-	324,387	53,191	377,578
Loans from other funds	-	-	4,889	4,889
Deferred revenue	1,321,588	774,197	494,518	2,590,303
Unearned revenue	<u>1,148,026</u>	<u>-</u>	<u>28,871</u>	<u>1,176,897</u>
Total liabilities	<u>7,128,654</u>	<u>1,295,053</u>	<u>841,941</u>	<u>9,265,648</u>
Fund balances:				
Reserved for encumbrances	1,065,396	308,236	695,376	2,069,008
Reserved for prepayments	63,672	3,170	1,611	68,453
Reserved for loans	4,889	-	-	4,889
Unreserved, undesignated (deficit), reported in:				
General fund	10,568,981	-	-	10,568,981
Special revenue funds	-	(453,519)	(565,402)	(1,018,921)
Capital projects fund	<u>-</u>	<u>-</u>	<u>389,339</u>	<u>389,339</u>
Total fund balances (deficit)	<u>11,702,938</u>	<u>(142,113)</u>	<u>520,924</u>	<u>12,081,749</u>
Total liabilities and fund balances	<u>\$ 18,831,592</u>	<u>\$ 1,152,940</u>	<u>\$ 1,362,865</u>	<u>\$ 21,347,397</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010**

Total governmental fund balances		\$ 12,081,749
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		6,167,260
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Tuition and customer services receivable	\$ 1,304,961	
Intergovernmental receivable	1,268,715	
Accrued interest receivable	<u>16,627</u>	
Total		2,590,303
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.		817,554
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(11,020)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,875,882)	
Capital lease obligation	(306,930)	
Lease purchase agreement	<u>(2,968,000)</u>	
Total		<u>(5,150,812)</u>
Net assets of governmental activities		<u><u>\$ 16,495,034</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition	\$ 13,886,240	\$ -	\$ -	\$ 13,886,240
Customer services	22,298,545	-	755,122	23,053,667
Earnings on investments	108,066	-	-	108,066
Rental income	120,362	-	-	120,362
Extracurricular	-	-	2,101	2,101
Contributions and donations	155,357	-	1,000	156,357
Other local revenues	28,747	-	25,149	53,896
Intergovernmental - intermediate	299,171	-	250,592	549,763
Intergovernmental - state	8,050,803	34,790	1,340,609	9,426,202
Intergovernmental - federal	1,115,878	871,827	3,966,179	5,953,884
Total revenues	46,063,169	906,617	6,340,752	53,310,538
Expenditures:				
Current:				
Instruction:				
Regular	712,582	-	48,155	760,737
Special	8,776,102	425,693	825,324	10,027,119
Other	53,252	-	-	53,252
Support services:				
Pupil	9,320,692	37,369	217,530	9,575,591
Instructional staff	11,114,574	377,164	2,715,084	14,206,822
Board of education	85,030	-	-	85,030
Administration	12,145,292	260,634	1,128,775	13,534,701
Fiscal	1,782,848	50,763	1,348,657	3,182,268
Business	631,276	-	-	631,276
Operations and maintenance	926,180	-	68,791	994,971
Pupil transportation	233,544	-	4,688	238,232
Central	1,862,778	-	146,309	2,009,087
Operation of non-instructional services	120,709	-	-	120,709
Extracurricular activities	91,490	-	-	91,490
Facilities acquisition and construction	394,863	-	503,847	898,710
Debt service:				
Principal retirement	269,711	-	-	269,711
Interest and fiscal charges	149,265	-	-	149,265
Total expenditures	48,670,188	1,151,623	7,007,160	56,828,971
Excess of expenditures over revenues	(2,607,019)	(245,006)	(666,408)	(3,518,433)
Other financing sources (uses):				
Sale of assets	450	-	74,825	75,275
Transfers in	55	113,491	590,000	703,546
Transfers (out)	(703,491)	-	(55)	(703,546)
Capital lease transaction	391,641	-	-	391,641
Total other financing sources (uses)	(311,345)	113,491	664,770	466,916
Net change in fund balances	(2,918,364)	(131,515)	(1,638)	(3,051,517)
Fund balances (deficits) at beginning of year	14,621,302	(10,598)	522,562	15,133,266
Fund balances (deficits) at end of year	\$ 11,702,938	\$ (142,113)	\$ 520,924	\$ 12,081,749

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Net change in fund balances - total governmental funds \$ (3,051,517)

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

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

Capital asset additions	\$	1,127,247	
Current year depreciation		<u>(741,606)</u>	
Total			385,641

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (54,910)

Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 269,711

Capital lease obligation payable balance forgiven upon termination of the lease reduces long-term liabilities on the statement of net assets. 159,866

Proceeds of capital lease transactions are recorded as revenue in the governmental funds, but the proceeds increase long-term liabilities on the statement of net assets. (391,641)

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

Tuition and customer services		275,888	
Intergovernmental revenue		(782,447)	
Earnings on investments		<u>(11,607)</u>	
Total			(518,166)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among the governmental activities. 478,359

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (20,960)

Change in net assets of governmental activities \$ (2,743,617)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010**

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 1,623,632
Total assets.	1,623,632
Liabilities:	
Claims payable	806,078
Total liabilities	806,078
Net assets:	
Unrestricted.	817,554
Total net assets	\$ 817,554

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 5,841,818
Total operating revenues	5,841,818
 Operating expenses:	
Claims	5,372,438
Total operating expenses.	5,372,438
 Operating income	469,380
 Nonoperating revenues:	
Interest revenue	8,979
Total nonoperating revenues.	8,979
 Change in net assets.	478,359
 Net assets at beginning of year	339,195
Net assets at end of year.	\$ 817,554

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 5,841,818
Cash payments for other claims	(5,434,896)
	406,922
Cash flows from investing activities:	
Interest received	8,979
	8,979
Net increase in cash and cash equivalents	415,901
Cash and cash equivalents at beginning of year . . .	1,207,731
Cash and cash equivalents at end of year	\$ 1,623,632
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 469,380
Changes in assets and liabilities:	
Decrease in claims payable	(62,458)
	406,922
Net cash provided by operating activities	\$ 406,922

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2010**

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 3,287,544
Receivables:	
Intergovernmental.	134,802
Prepayments	108
 Total assets.	 \$ 3,422,454
 Liabilities:	
Accounts payable.	\$ 595,323
Accrued wages and benefits	101,139
Compensated absences.	31,511
Intergovernmental payable	2,684,830
Loans payable	9,651
 Total liabilities	 \$ 3,422,454

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - DESCRIPTION OF THE CENTER

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

The Center operates under a locally-elected seven member Governing Board form of government and provides educational services as mandated by State or federal agencies. The Governing Board controls the Center's staff that provides services to over 116,431 students and other community members in Delaware, Franklin, and Union Counties.

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

A. Reporting Entity (Continued)

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's Governing Board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise have access to organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of this criteria, the Center has one component unit, which is discussed below.

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

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

COMPONENT UNIT

Educational Service Center Council of Governments (the "Council") - The Council is a legally separate body politic and corporate served by an appointed three-member Board of Directors that meets the definition of regional council of governments under chapter 167 of the Ohio Revised Code. The Council provides employment services primarily to the Center. The Council is a jointly governed entity between the Center and the Gahanna-Jefferson Public Schools. Other School Districts, community schools and other political subdivisions that have entered into service agreements with the Council shall automatically be members of the Council's Advisory Committee during the terms of such agreements. The Treasurer of the Center is also the Treasurer of the Council

The Council has been determined to be a discretely presented component unit. The Center's management has determined that it is significant; therefore it has been included as part of the Center's basic financial statements. The Council issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. The report may be obtained by writing to the Treasurer of the Educational Service Center of Central Ohio, 2080 Citygate Dr., Columbus, Ohio 43219.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

A. Reporting Entity (Continued)

JOINTLY GOVERNED ORGANIZATIONS

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

Delaware Area Career Center

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

Tri-Rivers Career Center

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

The following are the Center's major governmental funds:

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

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

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

B. Fund Accounting (Continued)

GOVERNMENTAL FUNDS (Continued)

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

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

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency funds account for various resources held for other organizations and individuals.

C. Basis of Presentation and Measurement Focus

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

C. Basis of Presentation and Measurement Focus (Continued)

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

D. Basis of Accounting (Continued)

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

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

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

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

E. Budgetary Process

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

E. Budgetary Process (Continued)

In fiscal year 2004, the Center requirement to file budgetary information with the Ohio Department of Education was eliminated and the Center has elected to not present budgetary schedules as supplementary information for fiscal year 2010. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated resources. The Center's Board adopts an annual appropriation resolution, which is the Board's, authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds.

F. Cash and Investments

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

During fiscal year 2010, investments were limited to investments in negotiable and non-negotiable certificates of deposit (CD's), commercial paper, federal agency securities and the State Treasury Asset Reserve (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The Center has invested funds in STAR Ohio during fiscal year 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$108,066, which includes \$19,365 assigned from other Center funds.

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

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

G. Capital Assets

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

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

G. Capital Assets (Continued)

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

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

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

H. Compensated Absences

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

H. Compensated Absences (Continued)

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Fund Balance Reserves

The Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, prepayments and loans.

K. Net Assets

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

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

L. Prepayments

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

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

M. Estimates

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

N. Operating Revenues and Expenses

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

O. Interfund Activity

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

P. Interfund Balances

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the Center has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the Center.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

A. Change in Accounting Principles (Continued)

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the Center.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the Center.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
Miscellaneous federal grants	\$ 142,113
 <u>Nonmajor governmental funds</u>	
Teacher development	9,871
Miscellaneous state grants	23,925
IDEA Part B	68,236
Preschool for handicapped	1,481

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all Center deposits was \$16,740,453. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$12,585,466 of the Center's bank balance of \$17,019,386 was exposed to custodial risk as discussed below, while \$4,433,920 was covered by the FDIC.

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

C. Investments

As of June 30, 2010, the Center had the following investments and maturities:

Investment type	Fair Value	Investment Maturities			
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months
FFCB	\$ 702,342	\$ -	\$ -	\$ 200,312	\$ 502,030
Commercial paper	997,017	997,017	-	-	-
Negotiable CD's	703,745	-	502,363	201,382	-
STAR Ohio	22,719	22,719	-	-	-
	<u>\$ 2,425,823</u>	<u>\$ 1,019,736</u>	<u>\$ 502,363</u>	<u>\$ 401,694</u>	<u>\$ 502,030</u>

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments (Continued)

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

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FFCB	\$ 702,342	28.95
Commercial paper	997,017	41.10
Negotiable CD's	703,745	29.01
STAR Ohio	22,719	0.94
	<u>\$ 2,425,823</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>		
Carrying amount of deposits	\$	16,740,453
Investments		2,425,823
Cash on hand		750
Total		<u>\$ 19,167,026</u>
<u>Cash and investments per statement of net assets</u>		
Governmental activities	\$	15,879,482
Agency funds		3,287,544
Total		<u>\$ 19,167,026</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2010, as reported on the fund statements as loans to/from other funds, consist of the following individual long-term interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 4,889

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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

- B.** Interfund balances at June 30, 2010, as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Miscellaneous federal grants	\$ 324,387
General	Nonmajor governmental funds	53,191

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

- C.** Interfund transfers for the fiscal year ended June 30, 2010, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Miscellaneous state grants	\$ 113,491
Nonmajor governmental funds	590,000
 <u>Transfers from nonmajor governmental funds to:</u>	
General fund	55

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

All transfers made in fiscal year 2010 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

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

<u>Loan from</u>	<u>Loan to</u>	<u>Amount</u>
General	Agency	\$ 9,651

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

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 6 - RECEIVABLES

Receivables at June 30, 2010 consisted of intergovernmental (billings to school districts for user charged services), accounts (charges for individual tuition on other services) and accrued interest. All receivables are considered collectible in full. A summary of the items of receivables reported on the statement of net assets follows:

Governmental activities:

Accounts	\$ 60,000
Intergovernmental	6,542,277
Accrued interest	28,699

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

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance <u>06/30/09</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/10</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 128,300	\$ 446,881	\$ -	\$ 575,181
Capital assets, not being depreciated	<u>128,300</u>	<u>446,881</u>	<u>-</u>	<u>575,181</u>
<i>Capital assets, being depreciated:</i>				
Buildings	3,628,305	27,311	-	3,655,616
Furniture and equipment	4,618,206	653,055	(330,434)	4,940,827
Vehicles	256,712	-	-	256,712
Total capital assets, being depreciated	<u>8,503,223</u>	<u>680,366</u>	<u>(330,434)</u>	<u>8,853,155</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(213,988)	(92,018)	-	(306,006)
Furniture and equipment	(2,424,800)	(633,540)	275,524	(2,782,816)
Vehicles	(156,206)	(16,048)	-	(172,254)
Total accumulated depreciation	<u>(2,794,994)</u>	<u>(741,606)</u>	<u>275,524</u>	<u>(3,261,076)</u>
Governmental activities capital assets, net	<u>\$ 5,836,529</u>	<u>\$ 385,641</u>	<u>\$ (54,910)</u>	<u>\$ 6,167,260</u>

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Special \$ 75,653

Support services:

Instructional staff 82,706

Administration 231,905

Fiscal 1,311

Business 6,508

Operations and maintenance 62,506

Pupil transportation 3,509

Central 277,508

Accumulated depreciation \$741,606

NOTE 8 - LEASE OBLIGATIONS - LESSEE DISCLOSURE

A. Lease-Purchase Agreement

On December 21, 2006, the Center entered into a fifteen year \$3,500,000 lease-purchase agreement to purchase the office building located at 2080 Citygate Drive, Columbus, Ohio. The lease-purchase agreement is with the OASBO Expanded Asset Pool Financing Program with bonds issued through the Columbus Regional Airport Authority. At June 30, 2010, capital assets acquired by lease purchase have been capitalized under land and buildings in the amounts of \$128,300 and \$3,371,700, respectively. Accumulated depreciation on buildings as of June 30, 2010 was \$298,110 leaving a current book value of \$3,073,590. Lease-purchase payments have been reflected as debt service expenditures in the general fund. Principal and interest payments in fiscal year 2010 totaled \$185,000 and \$136,373, respectively.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

A. Lease-Purchase Agreement (Continued)

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2010.

Fiscal Year Ending June 30,	Total
2011	\$ 320,951
2012	321,151
2013	320,949
2014	320,347
2015	319,343
2016 - 2020	1,591,713
2021 - 2022	634,338
Total minimum lease payments	3,828,792
Less: amount representing interest	(860,792)
Present value of minimum lease payments	\$ 2,968,000

B. Capital Lease Agreement

During fiscal year 2010 the Center entered into capitalized leases for copier equipment. These leases replaced the Center's previous leases which were terminated during the year. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$391,641. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2010 totaled \$84,711 paid by the general fund. In addition to the amount of principal retired, the District also terminated their existing leases with principal balances of \$159,866, which is included in general fund expenditures.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

B. Capital Lease Agreement (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2010:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 106,476
2012	106,476
2013	106,476
2014	<u>8,873</u>
Total minimum lease payment	328,301
Less: amount representing interest	<u>(21,371)</u>
Present value of minimum lease payments	<u>\$ 306,930</u>

NOTE 9 - LONG-TERM OBLIGATIONS

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

	<u>Balance Outstanding 06/30/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/10</u>	<u>Amounts Due in One Year</u>
Compensated absences	\$ 1,901,139	\$ 806,297	\$ (762,485)	\$ 1,944,951	\$ 657,711
Capital lease	159,866	391,641	(244,577)	306,930	95,125
Lease purchase agreement	<u>3,153,000</u>	<u>-</u>	<u>(185,000)</u>	<u>2,968,000</u>	<u>193,000</u>
Total long-term obligations	<u>\$ 5,214,005</u>	<u>\$ 1,197,938</u>	<u>\$(1,192,062)</u>	<u>\$ 5,219,881</u>	<u>\$ 945,836</u>

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

NOTE 10 - RISK MANAGEMENT

A. General Risk

The Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Center has addressed the various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 10 - RISK MANAGEMENT - (Continued)

A. General Risk (Continued)

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

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

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

B. Workers' Compensation Liability-Public Entity Risk Pool

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

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

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

C. Health and Dental Insurance

For the former employees of the Educational Service Center of Franklin County and all employees hired after January 1, 2009, by the Center, the Center has established a self-insurance fund for health and dental insurance. Claims are administered by a third party administrator, Polaris Benefit Administrators. The Center pays 80% of contributions and employees pay 20%. These amounts are deposited monthly by check from the general fund, special revenue funds, and other agency funds in an account held by the Center. Expenses for claims are recorded as other expenses when claims are approved and paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 10 - RISK MANAGEMENT - (Continued)

C. Health and Dental Insurance (Continued)

A summary of changes in self-insurance claims:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Balance</u> <u>June 30, 2009</u>
Claims liability at beginning of year	\$ 868,536	\$ 444,241
Incurred claims	5,372,438	6,144,337
Claims paid	<u>(5,434,896)</u>	<u>(5,720,042)</u>
Claims liability at end of year	<u>\$ 806,078</u>	<u>\$ 868,536</u>

The former Delaware Union Educational Service Center (DUESC) employees participate in The Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust (CDMU), a public entity shared risk pool consisting of seven school Districts and Madison, Champaign and Marion Counties. The Trust is organized as a Voluntary Employee Benefit association under Section 501 (c) (9) of the Internal Revenue Code and provides medical, dental and life insurance benefits to the employees of the participants. The Trust is responsible for the management and operations of the program. Each participant's superintendent is appointed to the Administrative Committee which advises the Trustee, concerning aspects of the administration of the Trust. Upon withdrawal from the trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal. Each participant decides which plans offered by the Administrative Committee will be extended to its employees. For employer and employees at June 30, 2010, single coverage is 90% Board paid and 10% employee paid, while family coverage is 72% Board paid and 28% employee paid. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from the North Union Local District, 12920 State Route 739, Richwood, Ohio 43344.

NOTE 11 - COMPENSATED ABSENCES

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

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

Classified personnel accumulate vacation based on the following schedule:

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 11 - COMPENSATED ABSENCES - (Continued)

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

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,857,554, \$1,463,540 and \$1,199,479, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 12 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$2,614,519, \$2,243,845 and \$1,640,667, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$240,093 made by the Center and \$171,495 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Governing Board have elected Social Security. The Center's liability is 6.2 percent of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

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

The Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$303,279, \$865,118 and \$727,298, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$110,465, \$120,754 and \$86,425, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$201,117, \$172,603 and \$126,205, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

NOTE 14 - STATE FUNDING

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

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

NOTE 15 - OPERATING LEASES - LESSEE DISCLOSURE

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

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

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

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

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

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

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS

B. Litigation (Continued)

The Educational Service Center Council of Governments (the "Council") has been determined to be a discretely presented component unit. The Center's management has determined that it is significant; therefore it has been included as part of the Center's basic financial statements. The Council issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. The report may be obtained by writing to the Treasurer of the Educational Service Center of Central Ohio, 2080 Citygate Dr., Columbus, Ohio 43219.

The Council is a legally separate body politic and corporate served by an appointed three-member Board of Directors that meets the definition of regional council of governments under chapter 167 of the Ohio Revised Code. The Council provides employment services primarily to the Center.

The Council is a jointly governed entity between the Center and the Gahanna-Jefferson Public Schools. Other School Districts, community schools and other political subdivisions that have entered into service agreements with the Council shall automatically be members of the Council's Advisory Committee during the terms of such agreements. The Treasurer of the Center is also the Treasurer of the Council.

C. Summary of Significant Accounting Policies

Accounting Basis - The basic financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Council also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, provided it does not conflict with or contradict GASB pronouncements. The School does not apply FASB guidance issued after November 30, 1989. Following are the more significant of the Council's accounting policies.

Basis of Presentation - The Council's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

Measurement Focus - Enterprise accounting uses a flow of economic *resources measurement focus*. With this measurement focus, all assets and liabilities associated with the operations are included on the statement of net assets. The difference between total assets and total liabilities is defined as net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the Council finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting - Basis of accounting determines when a transaction is recorded in the financial records and reported in the financial statements. The statements are prepared using the full accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS - (Continued)

C. Summary of Significant Accounting Policies (Continued)

Non-exchange transactions, in which the Council receives value without directly giving equal value in return, include grants, entitlements, and fees. Revenue from grants, entitlements, and fees is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Council must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Council on a reimbursement basis. Expenses are recognized at the time they are incurred.

Budgetary Process - Regional Council of Governments are not subject to budgetary provisions set forth in the Ohio Revised Code Chapter 5705.

Cash and Cash Equivalents - Cash held by the Council is reflected as "Cash and cash equivalents" on the statement of net assets. All monies received by the Council are maintained in a demand deposit account. For internal accounting purposes, the Council segregates its cash. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an original maturity of more than three months are reported as investments. During the current fiscal year, the Council held no investments.

Capital Assets and Depreciation - The Council maintains no capital assets.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Council or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Council applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Council did not have any restricted net assets at fiscal year end.

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

Operating Revenues and Expenses - Operating revenues are those revenues that are generally directly from the primary activities of the Council. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Council. All revenues and expenses not meeting this definition are reported as non-operating.

D. Cash Deposits

At June 30, 2010, the carrying amount of all Council deposits was \$512,512 and the bank balance was \$521,147. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, all of the bank balance was covered by the Federal Deposit Insurance Corporation.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS - (Continued)

D. Cash Deposits (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the Council will not be able to recover deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Council.

E. Receivables

Receivables at June 30, 2010 consisted of amounts due from operations.

F. Related Party Transactions

The Council is a jointly governed entity between the Center and the Gahanna-Jefferson Public Schools.

G. Contingencies

There are no matters in litigation with the Council as plaintiff or defendant.

H. Risk Management

The Council is exposed to various risks of loss related to torts, theft or damage, destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Council maintains coverage consistent with that of the Center.

I. Pension Plans

i. School Employees Retirement System

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS - (Continued)

I. Pension Plans (Continued)

i. School Employees Retirement System (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Council is required to contribute at an actuarially determined rate. The current Council rate is 14 percent of annual covered payroll. A portion of the Council's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Council's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009 and 2010 were \$10,725 and \$316,377, respectively; 100 percent has been contributed for both fiscal years.

ii. State Teachers Retirement System of Ohio

Plan Description - The Council participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS - (Continued)

I. Pension Plans (Continued)

ii. State Teachers Retirement System of Ohio (Continued)

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Council was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Council's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009 and 2010 were \$342,436 and \$513,476, respectively; 100 percent has been contributed for both fiscal years.

J. Postemployment Benefits

i. School Employees Retirement System

Plan Description - The Council participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS - (Continued)

J. Postemployment Benefits (Continued)

i. School Employees Retirement System (Continued)

Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

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

The Council's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009 and 2010 were \$4,908 and \$128,102, respectively; 100 percent has been contributed for both fiscal years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Council's contributions for Medicare Part B for the fiscal years ended June 30, 2009 and 2010 were \$885 and \$16,949, respectively; 100 percent has been contributed for both fiscal years.

ii. State Teachers Retirement System of Ohio

Plan Description - The Council contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Council's contributions for health care for the fiscal year ended June 30, 2009 was \$36,67; 100 percent has been contributed.

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

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Directly received from the U.S. Department of Education:</i>				
Fund for the Improvement of Education	2010	84.215	\$ 178,005	\$ 165,629
Fund for the Improvement of Education	2011	84.215	151,766	151,766
<i>Total for Fund for the Improvement of Education</i>			<u>329,771</u>	<u>317,395</u>
Rehabilitation services Demonstration and Training Programs	2011	84.235	59,580	59,580
Rehabilitation services Demonstration and Training Programs	2009	84.235	56,008	31,748
<i>Total Rehabilitation services Demonstration and Training Programs</i>			<u>115,588</u>	<u>91,328</u>
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2007	84.010	1,458	6,000
ARRA- Title I Grants to Local Educational Agencies	2010	84.389	71,714	40,788
<i>Total Title I Grants to Local Educational Agencies Cluster</i>			<u>73,172</u>	<u>46,788</u>
Special Education Grants to States	2008	84.027	2,327,924	624,639
Special Education Grants to States	2009	84.027	825,328	628,276
Special Education Grants to States	2010	84.027	2,163,182	2,111,674
Special Education-Preschool Grants	2010	84.173	107,304	130,508
Special Education-Preschool Grants	2009	84.173	28,836	16,555
Special Education-Preschool Grants	2008	84.173	0	2,446
ARRA- Special Education-Preschool Grants	2010	84.392	81,578	63,619
<i>Total Special Education Cluster</i>			<u>3,206,228</u>	<u>3,577,717</u>
Special Education State Personnel Development	2010	84.323	29,495	9,645
Special Education State Personnel Development	2008	84.323	34,790	32,150
<i>Total Special Education State Personnel Development</i>			<u>64,285</u>	<u>41,795</u>
English Language Acquisition Grants	2009	84.365	19,641	24,879
English Language Acquisition Grants	2010	84.365	20,197	14,409
<i>Total English Language Acquisition Grants</i>			<u>39,838</u>	<u>39,288</u>
Foreign Language Assistance	2009	84.293	111,750	94,188
Twenty-First Century Community Learning Centers	2010	84.287	2,600	9,300
Special Education Parent Information Centers	2009	84.328	67,064	30,869
Improving Teacher Quality State Grants	2010	84.367	135,193	135,193
Improving Teacher Quality State Grants	2009	84.367	56,848	60,000
<i>Total for Improving Teacher Quality State Grants</i>			<u>192,041</u>	<u>195,193</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>4,475,260</u>	<u>4,443,861</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through Ohio Department of Developmental Disabilities</i>				
Refugee and Entrant Assistance State Administered Programs	2010	93.566	48,040	47,291
Refugee and Entrant Assistance State Administered Programs	2009	93.566	82,552	82,552
			<u>130,592</u>	<u>129,843</u>
<i>Passed through the Ohio Department of Health & Human Services</i>				
Temporary Assistance for Needy Families	2010	93.558	140,725	486,229
Temporary Assistance for Needy Families	2009	93.558	345,383	102,598
			<u>486,108</u>	<u>588,827</u>
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	2009	93.768	10,000	7,871
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	2010	93.768	81,000	152,856
			<u>91,000</u>	<u>160,727</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>707,700</u>	<u>879,397</u>
<u>U.S. Department of Labor</u>				
<i>Passed through the Ohio Department of Job & Family Services</i>				
WIA Adult Program	2010	17.258	90,716	43,326
WIA Dislocated Workers	2010	17.260	0	5,988
TOTAL U.S. DEPARTMENT OF LABOR			<u>90,716</u>	<u>49,314</u>
TOTALS			<u>\$ 5,273,676</u>	<u>\$ 5,372,572</u>

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

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

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Educational Service Center of Central Ohio (the Center's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require the Center to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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

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

To the Governing Board:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Educational Service Center of Central Ohio, Franklin County, Ohio (the Center) as of and for the year ended June 30, 2010, which collectively comprise the Center's basic financial statements and have issued our report thereon dated May 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated May 31, 2011.

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Center's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Governing Board, federal awarding agencies and pass-through entities, and others within the Center. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

May 31, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Governing Board:

Compliance

We have audited the compliance of the Educational Service Center of Central Ohio, Franklin County, Ohio (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Center's major federal program for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

As described in finding 2010-002 in the accompanying schedule of findings and questioned costs, the Center did not comply with requirements regarding allowable costs, period of availability, and cash management applicable to its Special Education Cluster major federal program. Compliance with these requirements is necessary, in our opinion, for the Center to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Center complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-002 to be a material weakness.

The Center's response to the finding we identified is described in the accompanying schedule of findings and questioned costs. We did not audit the Center's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Governing Board, others within the Center, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

May 31, 2011

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	ARRA/Special Education Grants to States (CFDA #84.027, 84.173, 84.392)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2010-001

Finding for Recovery –Repaid Under Audit– Material Non-Compliance

The ESC's board-approved severance policy provides for payment to retiring employees of 25% of their unused accumulated sick leave as of the date of retirement, using the employee's effective daily rate of pay at retirement, not to exceed 30 days.

The ESC paid a former employee, Marsha Keefer, a severance payout consisting of her unused accumulated sick leave balance as of February 3, 2010.

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)

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

FINDING NUMBER 2010-001 (Continued)

Finding for Recovery –Repaid Under Audit- Material Non-Compliance (Continued)

However, due to an error in the calculation of the severance payout the ESC paid Ms. Keefer for 100% of her accrued days, instead of the 25% provided for under the severance policy. This resulted in an overpayment to Ms. Keefer of \$8,215.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is issued against Marsha Keefer for \$8,215 and in favor of the Educational Service Center of Central Ohio's General Fund.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. *Village of Linndale v. Masten*, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

Accordingly, the ESC Treasurer, Alan Hutchinson, and Traveler's Casualty and Surety Company of America, his surety, are jointly and severally liable in the amount of \$8,215 and in favor of the Educational Service Center of Central Ohio's General Fund.

On May 31, 2011, Ms. Keefer, repaid the ESC the full amount of \$8,215.

Officials Response:

Ms. Keefer has repaid the amount of the overpayment.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2010-002
CFDA Title and Number	84.027 Title VI-B – Special Education Grants to States
Federal Award Number / Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Special Education Grant – Material Weakness/Material Non-Compliance/Questioned Cost Allowable Costs, Cash Management, and Period of Availability

2 C.F.R. Part 225, Appendix A Section C3 states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Further, 2 C.F.R. Part 225, Appendix A Section C1 lists the factors affecting allowability of costs. To be allowable under Federal awards, costs must be adequately documented and not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period.

34 C.F.R. 80.21(c) prescribes the basic standards and methods under which a federal agency will make payments to grantees, and grantees will make payments to sub-grantees and contractors, and provides in part, that grantees shall be paid in advance, provided they have procedures in place to minimize the time elapsing between the transfer of funds and their disbursement by the grantee. The Ohio Department of Education prescribes a time period of 30 days in which its sub-grantees must fully expend each advance of federal funds.

34 CFR 74.28 states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Secretary and according to Common Rule A-102, the entity shall liquidate all obligation incurred under the award not later than 90 days after the end of the funding period.

Ohio Rev. Code Section 3323.31 became effective September 22, 2008, requiring the ESC to assume responsibilities of administering the activities of the Ohio Center for Autism and Low Incidence Disabilities (OCALI); formerly, the Ohio Department of Education (ODE) administered OCALI's activities, and provided federal Title VI-B funding to subsidize the operation of OCALI. The project period was July 1, 2007 through September 30, 2008, and an extension was granted to fund these activities through December 31, 2008.

At the end of the project period, when the ESC had fulfilled its obligations under the project, the remaining fund balance of \$1,045,997 was moved from its Special Education Fund to its General Fund. This amount consisted of a \$421,997 contract and \$624,000 of federal funding. Because ODE had made the determination that the \$624,000 portion of the project was a grant award and the ESC viewed the entire remaining fund balance of \$1,045,997 as a contract (and therefore not subject to federal requirements enumerated above) we noted the following non-compliance with federal requirements:

- Allowable Costs - The ESC had no documentation for \$624,000 of services that were provided by the General Fund for OCALI to justify the payment of these federal grant monies from its Title VI-B Fund to its General Fund.
- Period of Availability – The ESC moved the \$624,000 to its General Fund on June 30, 2010, after the end of the project period of December 31, 2008.

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2010-002 (Continued)
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Special Education Grant – Material Weakness/Material Non-Compliance/Questioned Cost Allowable Costs, Cash Management, and Period of Availability (Continued)

- Cash Management – \$561,600 of the \$624,000 grant was received in July 2009, but was not expended (moved to the General Fund) until June 30, 2010.

As a result, questioned costs for federal funds are \$624,000, or 17.5% of total 2010 Title VI-B expenditures.

The ESC has consulted with ODE regarding this matter and ODE has indicated that in spite of the above non-compliance, because of the differing interpretations of this funding ODE will not require the ESC to repay any of this funding.

We recommend the ESC ensure there is proper understanding of the nature of funding at each project's inception. The ESC should also consider separate tracking of financial activity for OCALI activities, regardless of whether funding is by contract or grant or any other funding source; this would facilitate the ESC's ability to demonstrate that all expenditures are properly supported and meet the federal requirements enumerated above.

Officials' Response and Corrective Action Plan:

We currently track and have tracked the activity for OCALI grants separate from other OCALI activities as recommended above. However, as stated above, the issue came about during the transitioning of the responsibilities between ODE and the ESC for administration of the OCALI operations. Furthermore, as stated above, we subsequently have received notification from ODE that states that "Upon review of our documentation, the ESC satisfied all requirements under the terms and conditions of the award, and no refund is due to ODE."

Anticipated Completion Date: March 31, 2011
Responsible Contact: Alan Hutchinson, Treasurer



Dave Yost • Auditor of State

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 16, 2011