



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

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

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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, 2011, 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, 2011, 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.

As described in Note 3, during 2011, the Center adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2012, 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

February 29, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011. 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 2011 are as follows:

- In total, net assets of governmental activities increased \$41,874 which represents a 0.25% increase from 2010.
- General revenues accounted for \$6,119,686 in revenue or 9.80% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$56,344,347 or 90.20% of total revenues of \$62,464,033.
- The Center had \$62,422,159 in expenses related to governmental activities; \$56,344,347 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 IDEA Part B special revenue fund. The general fund had \$56,257,000 in revenues and \$55,680,187 in expenditures and other financing uses. During fiscal year 2011, the general fund's fund balance increased \$576,813 from a restated balance of \$11,730,349 to \$12,307,162.
- The IDEA Part B special revenue fund had \$2,959,603 in revenues and other financing sources and \$3,134,229 in expenditures. During fiscal year 2011, its deficit balance increased \$174,626 from a deficit of \$68,236 to a deficit of \$242,862.

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 IDEA Part B fund as major funds.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 2011?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the 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, 2011**

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 2011 and 2010.

	Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Assets</u>		
Current and other assets	\$ 22,232,826	\$ 22,588,562
Capital assets	<u>5,670,286</u>	<u>6,167,260</u>
Total assets	<u>27,903,112</u>	<u>28,755,822</u>
<u>Liabilities</u>		
Current liabilities	6,278,936	7,040,907
Long-term liabilities	<u>5,087,268</u>	<u>5,219,881</u>
Total liabilities	<u>11,366,204</u>	<u>12,260,788</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,683,481	2,892,330
Restricted	468,059	1,589,882
Unrestricted	<u>13,385,368</u>	<u>12,012,822</u>
Total net assets	<u>\$ 16,536,908</u>	<u>\$ 16,495,034</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the Center's assets exceeded liabilities by \$16,536,908. Of this total, \$13,385,368 is unrestricted in use.

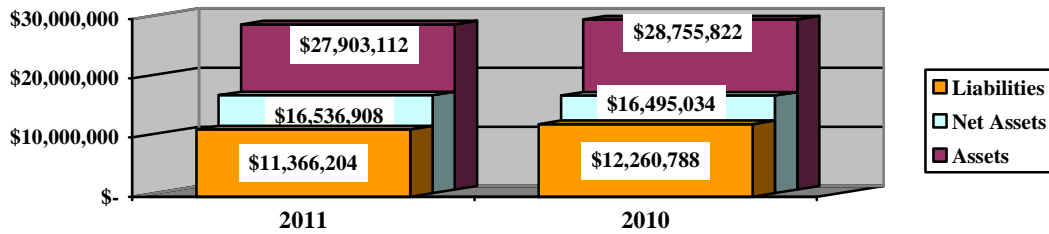
**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

At year-end, capital assets represented 20.32% of total assets. Capital assets include land, buildings, furniture and equipment and vehicles. Capital assets, net of related debt at June 30, 2011, were \$2,683,481. 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, \$468,059, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$13,385,368 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 2011 and 2010.

Change in Net Assets

	Governmental Activities 2011	Governmental Activities 2010
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 49,034,121	\$ 37,243,045
Operating grants and contributions	7,310,226	9,611,920
General revenues:		
Grants and entitlements	5,673,639	5,536,482
Investment earnings	54,051	105,438
Other	391,996	379,741
Total revenues	\$ 62,464,033	\$ 52,876,626

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Change in Net Assets

	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 836,954	\$ 755,216
Special	9,878,948	9,970,923
Adult education	54,732	52,670
Support services:		
Pupil	8,467,081	9,473,212
Instructional staff	12,171,012	14,094,223
Board of education	68,595	85,030
Administration	10,729,482	13,544,778
Fiscal	3,024,254	3,200,531
Business	595,048	637,305
Operations and maintenance	1,150,542	1,100,398
Pupil transportation	197,237	252,939
Central	14,950,223	2,107,478
Operation of non-instructional services	66,912	104,831
Extracurricular	92,553	91,444
Interest and fiscal charges	<u>138,586</u>	<u>149,265</u>
Total expenses	<u>62,422,159</u>	<u>55,620,243</u>
Change in net assets	41,874	(2,743,617)
Net assets at beginning of year	<u>16,495,034</u>	<u>19,238,651</u>
Net assets at end of year	<u>\$ 16,536,908</u>	<u>\$ 16,495,034</u>

Governmental Activities

Net assets of the Center's governmental activities increased \$41,874 during fiscal year 2011. Total governmental expenses of \$62,422,159 were offset by program revenues of \$56,344,347 and general revenues of \$6,119,686. Program revenues supported 90.26% of the total governmental expenses.

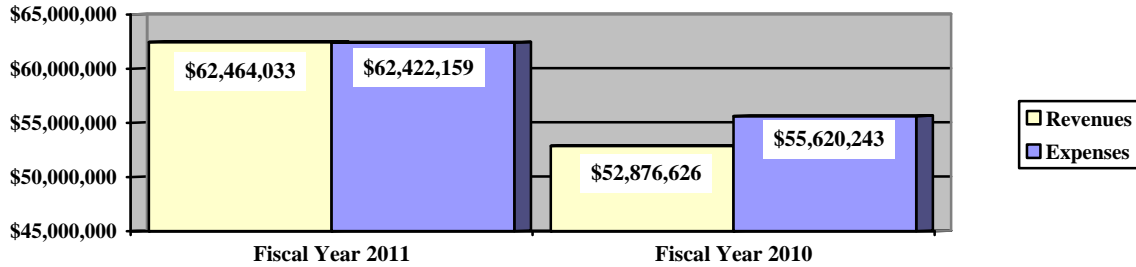
The primary sources of revenue for governmental activities are derived from tuition and contracted fees for services provided to other entities. This revenue source represents 78.50% of total governmental revenue. Additional service requests led to an increase in charges for services revenue, as well as increased expenditures. Operating grants and contributions decreased, however, as a result of lower OCALI grant revenues in 2011 from the State of Ohio.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2011 and 2010.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
Program expenses				
Instruction:				
Regular	\$ 836,954	\$ 618,284	\$ 755,216	\$ 712,057
Special	9,878,948	1,062,852	9,970,923	1,967,632
Other	54,732	54,732	52,670	52,670
Support services:				
Pupil	8,467,081	859,206	9,473,212	2,001,802
Instructional staff	12,171,012	849,894	14,094,223	1,793,420
Board of education	68,595	7,979	85,030	18,456
Administration	10,729,482	(184,026)	13,544,778	434,223
Fiscal	3,024,254	138,712	3,200,531	470,733
Business	595,048	70,060	637,305	143,057
Operations and maintenance	1,150,542	183,288	1,100,398	199,689
Pupil transportation	197,237	197,237	252,939	249,042
Central	14,950,223	1,921,543	2,107,478	376,957
Operation of non-instructional services	66,912	66,912	104,831	104,831
Extracurricular	92,553	92,553	91,444	91,444
Interest and fiscal charges	<u>138,586</u>	<u>138,586</u>	<u>149,265</u>	<u>149,265</u>
 Total expenses	 <u>\$ 62,422,159</u>	 <u>\$ 6,077,812</u>	 <u>\$ 55,620,243</u>	 <u>\$ 8,765,278</u>

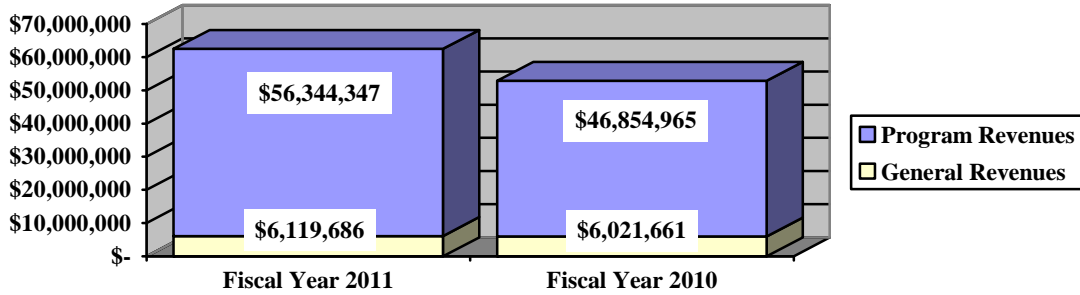
For all governmental activities, program revenue support is 90.26% at June 30, 2011 and 84.24% at June 30, 2010. The primary support of the Center is contracted fees for services provided to other districts.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The graph below presents the Center's governmental activities revenue for fiscal year 2011 and 2010.

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 \$12,297,198, which is higher than last year's total of \$12,081,749. Fund balances at June 30, 2010 have been restated as described in Note 3.B. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance (Deficit) <u>June 30, 2011</u>	Restated Fund Balance (Deficit) <u>June 30, 2010</u>	Increase (Decrease)
General	\$ 12,307,162	\$ 11,730,349	\$ 576,813
IDEA Part B	(242,862)	(68,236)	(174,626)
Other Governmental	<u>232,898</u>	<u>419,636</u>	<u>(186,738)</u>
Total	<u>\$ 12,297,198</u>	<u>\$ 12,081,749</u>	<u>\$ 215,449</u>

General Fund

The Center's general fund balance increased in fiscal year 2011 by \$576,813. 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, 2011**

	<u>2011 Amount</u>	<u>Restated 2010 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Tuition	\$ 16,760,635	\$ 13,886,240	20.70 %
Customer services	31,410,427	22,298,545	40.86 %
Earnings on investments	53,989	108,066	(50.04) %
Intergovernmental	7,639,953	9,465,852	(19.29) %
Other revenues	<u>391,996</u>	<u>329,615</u>	18.93 %
Total	<u>\$ 56,257,000</u>	<u>\$ 46,088,318</u>	22.06 %
<u>Expenditures</u>			
Instruction	\$ 9,390,396	\$ 9,541,936	(1.59) %
Support services	45,608,272	38,104,045	19.69 %
Operation of non-instructional services	69,585	120,709	(42.35) %
Extracurricular activities	92,637	91,490	1.25 %
Facilities acquisition and construction	6,831	394,863	(98.27) %
Debt service	<u>427,427</u>	<u>418,976</u>	2.02 %
Total	<u>\$ 55,595,148</u>	<u>\$ 48,672,019</u>	14.22 %

Both revenues and expenditures increased significantly, which is due to increased services requests from entities which the Center serves. The only major decrease in revenues for the Center in fiscal year 2011 was intergovernmental revenues, which is the result of federal grant monies that were received in fiscal year 2010. Overall, expenditures increased in line with the increased revenues. In fiscal year 2011, the Center reclassified how certain expenditures were reported, which resulted in additional expenditures reported under support services. Facilities acquisition and construction expenditures were much higher in fiscal year 2010 as a result of the Center's capital lease agreement entered into during the fiscal year.

IDEA Part B Fund

During fiscal year 2011, the IDEA Part B fund's deficit balance increased \$174,626. Revenues and other financing sources totaled \$2,959,603 and expenditures totaled \$3,134,229 during fiscal year 2011.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Capital Assets and Debt Administration

Capital Assets

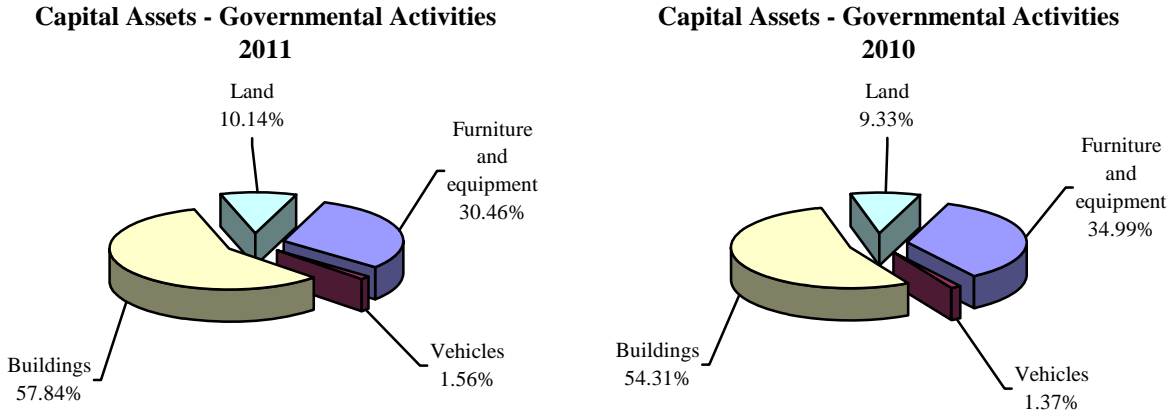
At the end of fiscal year 2011, the Center had \$5,670,286 invested in land, buildings, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2011 balances compared to 2010:

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

	Governmental Activities	
	2011	2010
Land	\$ 575,181	\$ 575,181
Buildings	3,279,869	3,349,610
Furniture and equipment	1,726,889	2,158,011
Vehicles	88,347	84,458
Total	<u>\$ 5,670,286</u>	<u>\$ 6,167,260</u>

Total additions to capital assets for 2011 were \$170,806. A total of \$666,125 in depreciation expense was recognized and disposals were \$1,655 (net of accumulated depreciation) for fiscal year 2011.

The graphs below present the Center's capital assets for fiscal years 2011 and 2010.



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, 2011**

Debt Administration

At June 30, 2011 the Center had \$2,986,805 in a lease purchase and capital lease agreement outstanding. Of this total, \$301,302 is due within one year and \$2,685,503 is due in greater than one year. The following table summarizes the debt outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities 2011	Governmental Activities 2010
Lease Purchase Agreement	\$ 2,775,000	\$ 2,968,000
Capital lease obligations	<u>211,805</u>	<u>306,930</u>
Total	<u>\$ 2,986,805</u>	<u>\$ 3,274,930</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 2011. 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, 2011**

	Governmental Activities	Component Unit
Assets:		
Equity in pooled cash and cash equivalents. . .	\$ 14,413,410	\$ 640,124
Receivables:		
Intergovernmental	7,706,893	1,486,440
Accrued interest	14,381	-
Prepayments	71,822	-
Loans.	26,320	-
Capital assets:		
Land	575,181	-
Depreciable capital assets, net	5,095,105	-
Capital assets, net	5,670,286	-
 Total assets.	 27,903,112	 2,126,564
 Liabilities:		
Accounts payable.	349,094	6,186
Accrued wages and benefits	3,190,680	1,096,084
Intergovernmental payable	749,415	403,184
Claims payable.	447,183	-
Accrued interest payable	10,304	-
Unearned revenue	1,532,260	-
Long-term liabilities:		
Due within one year.	1,043,714	-
Due in more than one year.	4,043,554	-
Total liabilities	11,366,204	1,505,454
 Net assets:		
Invested in capital assets, net of related debt.	2,683,481	-
Restricted for:		
Capital projects	371,672	-
Locally funded programs	83,477	-
State funded programs.	12,060	-
Student activities	850	-
Unrestricted	13,385,368	621,110
Total net assets	\$ 16,536,908	\$ 621,110

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, 2011**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Component Unit</u>
Governmental activities:					
Instruction:					
Regular	\$ 836,954	\$ 52,460	\$ 166,210	\$ (618,284)	\$ -
Special	9,878,948	8,468,491	347,605	(1,062,852)	-
Other	54,732	-	-	(54,732)	-
Support services:					
Pupil.	8,467,081	7,536,772	71,103	(859,206)	-
Instructional staff	12,171,012	7,422,095	3,899,023	(849,894)	-
Board of education	68,595	60,616	-	(7,979)	-
Administration.	10,729,482	8,702,897	2,210,611	184,026	-
Fiscal.	3,024,254	2,432,593	452,949	(138,712)	-
Business.	595,048	524,988	-	(70,060)	-
Operations and maintenance	1,150,542	847,995	119,259	(183,288)	-
Pupil transportation.	197,237	-	-	(197,237)	-
Central	14,950,223	12,985,214	43,466	(1,921,543)	-
Operation of non-instructional services	66,912	-	-	(66,912)	-
Extracurricular activities.	92,553	-	-	(92,553)	-
Interest and fiscal charges	138,586	-	-	(138,586)	-
Total governmental activities	<u>\$ 62,422,159</u>	<u>\$ 49,034,121</u>	<u>\$ 7,310,226</u>	<u>(6,077,812)</u>	<u>-</u>
Component Unit:					
Educational Service Center					
Council of Governments	<u>\$ 15,926,790</u>	<u>\$ 15,881,495</u>	<u>\$ -</u>	<u>-</u>	<u>(45,295)</u>
General revenues:					
Grants and entitlements not restricted to specific programs					
				5,673,639	-
				54,051	-
				391,996	-
Total general revenues				<u>6,119,686</u>	<u>-</u>
Change in net assets				41,874	(45,295)
Net assets at beginning of year.				<u>16,495,034</u>	<u>666,405</u>
Net assets at end of year				<u>\$ 16,536,908</u>	<u>\$ 621,110</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General</u>	<u>IDEA Part B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 11,964,525	\$ -	\$ 393,912	\$ 12,358,437
Receivables:				
Intergovernmental.	6,053,379	737,024	916,490	7,706,893
Accrued interest	14,381	-	-	14,381
Due from other funds.	771,190	-	-	771,190
Loans to other funds	4,889	-	-	4,889
Prepayments	68,187	2,616	1,019	71,822
Loans.	26,320	-	-	26,320
Total assets.	<u>\$ 18,902,871</u>	<u>\$ 739,640</u>	<u>\$ 1,311,421</u>	<u>\$ 20,953,932</u>
Liabilities:				
Accounts payable	\$ 210,226	\$ 22,595	\$ 116,273	\$ 349,094
Accrued wages and benefits.	3,067,344	110,066	13,270	3,190,680
Compensated absences payable	148,443	11,108	-	159,551
Intergovernmental payable	667,697	23,302	58,416	749,415
Due to other funds	-	270,593	500,597	771,190
Loans from other funds	-	4,889	-	4,889
Deferred revenue	969,739	539,949	389,967	1,899,655
Unearned revenue.	1,532,260	-	-	1,532,260
Total liabilities.	<u>6,595,709</u>	<u>982,502</u>	<u>1,078,523</u>	<u>8,656,734</u>
Fund balances:				
Nonspendable:				
Prepays.	68,187	2,616	1,019	71,822
Long-term loans.	4,889	-	-	4,889
Restricted:				
Student activities.	-	-	850	850
Other purposes.	-	-	95,434	95,434
Committed:				
Capital improvements	-	-	371,672	371,672
Assigned:				
Student instruction.	65,297	-	-	65,297
Student and staff support.	829,975	-	-	829,975
Unassigned (deficit)	11,338,814	(245,478)	(236,077)	10,857,259
Total fund balances (deficit).	<u>12,307,162</u>	<u>(242,862)</u>	<u>232,898</u>	<u>12,297,198</u>
Total liabilities and fund balances	<u>\$ 18,902,871</u>	<u>\$ 739,640</u>	<u>\$ 1,311,421</u>	<u>\$ 20,953,932</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, 2011**

Total governmental fund balances		\$ 12,297,198
 <i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,670,286
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	\$ 960,291	
Intergovernmental receivable	929,916	
Accrued interest receivable	9,448	
Total	1,899,655	1,899,655
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		1,607,790
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(10,304)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,940,912)	
Capital lease obligations	(211,805)	
Lease purchase agreement	(2,775,000)	
Total	(4,927,717)	(4,927,717)
Net assets of governmental activities		\$ 16,536,908

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, 2011**

	<u>General</u>	<u>IDEA Part B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition	\$ 16,760,635	\$ -	\$ -	\$ 16,760,635
Customer services	31,410,427	-	1,216,729	32,627,156
Earnings on investments	53,989	-	-	53,989
Rental income	85,288	-	-	85,288
Contributions and donations	263,942	-	645	264,587
Other local revenues	42,766	-	-	42,766
Intergovernmental - intermediate	-	-	435,314	435,314
Intergovernmental - state	6,381,486	-	1,055,751	7,437,237
Intergovernmental - federal	1,258,467	2,951,638	1,230,363	5,440,468
Total revenues	56,257,000	2,951,638	3,938,802	63,147,440
Expenditures:				
Current:				
Instruction:				
Regular	630,425	-	215,506	845,931
Special	8,704,154	-	1,296,584	10,000,738
Other	55,817	-	-	55,817
Support services:				
Pupil	8,528,939	-	97,157	8,626,096
Instructional staff	8,399,166	2,598,648	1,384,844	12,382,658
Board of education	68,595	-	-	68,595
Administration	9,641,563	250,953	758,771	10,651,287
Fiscal	2,703,093	197,316	164,339	3,064,748
Business	594,100	-	-	594,100
Operations and maintenance	959,628	86,651	2,810	1,049,089
Pupil transportation	189,999	-	22,000	211,999
Central	14,523,189	661	196,031	14,719,881
Operation of non-instructional services	69,585	-	-	69,585
Extracurricular activities	92,637	-	-	92,637
Facilities acquisition and construction	6,831	-	64,572	71,403
Debt service:				
Principal retirement	288,125	-	-	288,125
Interest and fiscal charges	139,302	-	-	139,302
Total expenditures	55,595,148	3,134,229	4,202,614	62,931,991
Excess (deficiency) of revenues over (under) expenditures	661,852	(182,591)	(263,812)	215,449
Other financing sources (uses):				
Transfers in	-	7,965	77,074	85,039
Transfers (out)	(85,039)	-	-	(85,039)
Total other financing sources (uses)	(85,039)	7,965	77,074	-
Net change in fund balances	576,813	(174,626)	(186,738)	215,449
Fund balances (deficit) at beginning of year (restated)	11,730,349	(68,236)	419,636	12,081,749
Fund balances (deficit) at end of year	\$ 12,307,162	\$ (242,862)	\$ 232,898	\$ 12,297,198

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, 2011**

Net change in fund balances - total governmental funds \$ 215,449

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 depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$ 170,806	
Current year depreciation	(666,125)	
Total		(495,319)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (1,655)

Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 288,125

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	(344,670)	
Intergovernmental revenue	(338,799)	
Earnings on investments	(7,179)	
Total		(690,648)

An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 790,236

In the statement of activities, interest is accrued on the lease purchase agreement, whereas in governmental funds, an interest expenditure is reported when due. 716

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. (65,030)

Change in net assets of governmental activities \$ 41,874

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011**

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 2,054,973
Total assets.	2,054,973
Liabilities:	
Claims payable	447,183
Total liabilities	447,183
Net assets:	
Unrestricted.	1,607,790
Total net assets	\$ 1,607,790

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, 2011**

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 5,569,337
Total operating revenues	5,569,337
 Operating expenses:	
Claims	4,786,342
Total operating expenses.	4,786,342
 Operating income	782,995
 Nonoperating revenues:	
Interest revenue	7,241
Total nonoperating revenues.	7,241
 Change in net assets.	790,236
 Net assets at beginning of year	817,554
Net assets at end of year.	\$ 1,607,790

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, 2011**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 5,569,337
Cash payments for claims	(5,145,237)
Net cash provided by operating activities	424,100
 Cash flows from investing activities:	
Interest received	7,241
Net cash provided by investing activities	7,241
 Net increase in cash and cash equivalents.	431,341
 Cash and cash equivalents at beginning of year . . .	1,623,632
Cash and cash equivalents at end of year	\$ 2,054,973
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 782,995
Changes in assets and liabilities:	
Decrease in claims payable	(358,895)
Net cash provided by operating activities.	\$ 424,100

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, 2011**

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 2,715,997
Receivables:	
Intergovernmental	54,584
Total assets.	\$ 2,770,581
Liabilities:	
Accounts payable.	\$ 456,692
Accrued wages and benefits	8,092
Compensated absences.	13,280
Intergovernmental payable	2,266,197
Loans payable	26,320
Total liabilities	\$ 2,770,581

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, 2011**

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, 2011
(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, 2011
(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 districts' elected boards, 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 and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

B. Fund Accounting (Continued)

GOVERNMENTAL FUNDS (Continued)

IDEA Part B fund - The IDEA Part B fund is used to account for federal grants which are used to provide public education to all children with disabilities.

Other governmental funds of the Center are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition of construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

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, 2011
(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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

D. Basis of Accounting

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

Revenues - Exchange and 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

E. Budgetary Process

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund 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 2011 amounted to \$53,989, which includes \$13,667 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

G. Capital Assets

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

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

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

H. Compensated Absences (Continued)

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2011 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

I. Accrued Liabilities and Long-Term Obligations

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

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

Fund balance is divided into five classifications based primarily on the extent to which the Center is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Governing Board (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

J. Fund Balance (Continued)

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Center for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Center applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

K. Net Assets

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

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

L. Prepayments

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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 2011, the Center has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the Center.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the Center's governmental fund balances as previously reported:

	<u>General</u>	<u>IDEA Part B</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance (deficit) as previously reported	\$ 11,702,938	\$ (68,236)	\$ 447,047	\$ 12,081,749
Fund reclassifications:				
Central Ohio Superintendents fund	<u>27,411</u>	<u>-</u>	<u>(27,411)</u>	<u>-</u>
Restated fund balance (deficit) at July 1, 2010	<u>\$ 11,730,349</u>	<u>\$ (68,236)</u>	<u>\$ 419,636</u>	<u>\$ 12,081,749</u>

The fund reclassifications did not have an effect on net assets as previously reported.

C. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
IDEA Part B	\$ 242,862
 <u>Nonmajor funds</u>	
Teacher development	9,871
Miscellaneous state grants	108,566
Title III	834
Refugee children school	6,442
Title I	5,000
Preschool for handicapped	28,206
Miscellaneous state grants	76,580

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 resulted 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all Center deposits was \$12,090,239. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$9,807,089 of the Center's bank balance of \$12,230,932 was exposed to custodial risk as discussed below, while \$2,423,843 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, 2011, the Center had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>
FHLB	\$ 1,019,100	\$ -	\$ -	\$ 1,019,100
Commercial paper	3,996,575	3,996,575	-	-
STAR Ohio	22,743	22,743	-	-
	<u>\$ 5,038,418</u>	<u>\$ 4,019,318</u>	<u>\$ -</u>	<u>\$ 1,019,100</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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments (Continued)

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 rating service. The Center's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The Center's investment policy does not specifically address credit risk beyond requiring the Center to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the Center's name. 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, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 1,019,100	20.23
Commercial paper	3,996,575	79.32
STAR Ohio	<u>22,743</u>	<u>0.45</u>
	<u>\$ 5,038,418</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 12,090,239
Investments	5,038,418
Cash on hand	<u>750</u>
Total	<u>\$ 17,129,407</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 14,413,410
Agency funds	<u>2,715,997</u>
Total	<u>\$ 17,129,407</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2011, 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	IDEA Part B	\$ 270,593
General	Nonmajor governmental funds	500,597

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.

- B.** Interfund balances at June 30, 2011, 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	IDEA Part B	\$ 4,889

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

- C.** Interfund transfers for the fiscal year ended June 30, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
IDEA Part B	\$ 7,965
Nonmajor governmental funds	77,074

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.

All transfers made in fiscal year 2011 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	\$ 26,320

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 6 - RECEIVABLES

Receivables at June 30, 2011 consisted of intergovernmental (billings to school districts for user charged 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:

Intergovernmental	\$ 7,706,893
Accrued interest	14,381

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, 2011, was as follows:

	Balance <u>06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 575,181	\$ -	\$ -	\$ 575,181
Capital assets, not being depreciated	<u>575,181</u>	<u>-</u>	<u>-</u>	<u>575,181</u>
<i>Capital assets, being depreciated:</i>				
Buildings	3,655,616	23,101	-	3,678,717
Furniture and equipment	4,940,827	125,705	(21,122)	5,045,410
Vehicles	256,712	22,000	-	278,712
Total capital assets, being depreciated	<u>8,853,155</u>	<u>170,806</u>	<u>(21,122)</u>	<u>9,002,839</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(306,006)	(92,842)	-	(398,848)
Furniture and equipment	(2,782,816)	(555,172)	19,467	(3,318,521)
Vehicles	(172,254)	(18,111)	-	(190,365)
Total accumulated depreciation	<u>(3,261,076)</u>	<u>(666,125)</u>	<u>19,467</u>	<u>(3,907,734)</u>
Governmental activities capital assets, net	<u>\$ 6,167,260</u>	<u>\$ (495,319)</u>	<u>\$ (1,655)</u>	<u>\$ 5,670,286</u>

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

NOTE 7 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Special \$ 73,413

Support services:

Instructional staff	14,877
Administration	219,417
Fiscal	1,779
Business	6,846
Operations and maintenance	55,353
Pupil transportation	6,018
Central	<u>288,422</u>

Accumulated depreciation \$666,125

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, 2011, 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, 2011 was \$383,885 leaving a current book value of \$2,987,815. Lease-purchase payments have been reflected as debt service expenditures in the general fund. Principal and interest payments in fiscal year 2011 totaled \$193,000 and \$127,951, respectively.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2011.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 8 - LEASE OBLIGATIONS - LESSEE DISCLOSURE (Continued)

A. Lease-Purchase Agreement (Continued)

<u>Fiscal Year Ending June 30,</u>	<u>Total</u>
2012	\$ 321,151
2013	320,949
2014	320,347
2015	319,343
2016	318,917
2017 - 2021	1,590,227
2022	<u>316,907</u>
Total minimum lease payments	3,507,841
Less: amount representing interest	<u>(732,841)</u>
Present value of minimum lease payments	<u>\$ 2,775,000</u>

B. Capital Lease Agreement

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

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 2011 totaled \$95,125 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2011:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 106,476
2013	106,476
2014	<u>8,873</u>
Total minimum lease payment	221,825
Less: amount representing interest	<u>(10,020)</u>
Present value of minimum lease payments	<u>\$ 211,805</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/11</u>	Amounts Due in <u>One Year</u>
Compensated absences	\$ 1,944,951	\$ 814,481	\$ (658,969)	\$ 2,100,463	\$ 742,412
Capital lease	306,930	-	(95,125)	211,805	99,302
Lease purchase agreement	<u>2,968,000</u>	<u>-</u>	<u>(193,000)</u>	<u>2,775,000</u>	<u>202,000</u>
Total long-term obligations	<u>\$ 5,219,881</u>	<u>\$ 814,481</u>	<u>\$ (947,094)</u>	<u>\$ 5,087,268</u>	<u>\$ 1,043,714</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 \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. Fleet insurance is maintained in the amount of \$1,000,000 for each occurrence. Excess liability insurance is maintained in the amount of \$4,000,000 for each occurrence, offense, accident or wrongful act limit and \$4,000,000 annual aggregate limit.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 10 - RISK MANAGEMENT (Continued)

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.

A summary of changes in self-insurance claims:

	Balance <u>June 30, 2011</u>	Balance <u>June 30, 2010</u>
Claims liability at beginning of year	\$ 806,078	\$ 868,536
Incurred claims	4,786,342	5,372,438
Claims paid	<u>(5,145,237)</u>	<u>(5,434,896)</u>
Claims liability at end of year	<u>\$ 447,183</u>	<u>\$ 806,078</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 10 - RISK MANAGEMENT (Continued)

C. Health and Dental Insurance (Continued)

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 Districts and Madison Champaign Educational Service Center. 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, 2011, 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.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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 "Media/Financial Reports".

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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,423,869, \$1,857,554 and \$1,463,540, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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 under "Publications".

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 12 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio (Continued)

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

Funding Policy - For fiscal year 2011, 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, 2011, 2010 and 2009 were \$2,427,563, \$2,614,519 and \$2,243,845, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$175,427 made by the Center and \$125,305 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board have elected Social Security. The Center's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System (Continued)

The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Media/Financial Reports*".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$392,041, \$303,279 and \$865,118, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$91,629, \$110,465 and \$120,754, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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 under "*Publications*" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio (Continued)

For 2011, 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, 2011, 2010 and 2009 were \$186,736, \$201,117 and \$172,603, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

NOTE 14 - STATE FUNDING

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

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

NOTE 15 - OPERATING LEASES - LESSEE DISCLOSURE

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 15 - OPERATING LEASES - LESSEE DISCLOSURE (Continued)

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

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

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

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 17 - EDUCATIONAL SERVICE CENTER COUNCIL OF GOVERNMENTS

The Educational Service Center Council of Governments (the Council) is a legally separate body politic and corporate served by an appointed three-member Board of Directors and meets the definition of regional council of governments under chapter 167 of the Ohio Revised Code. The primary operations of the Council are to employ employee personnel on behalf of School Districts and Agencies throughout Central Ohio.

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 is a component unit of the Center; the Center appoints a majority of the Council's Governing Board.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

A. 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.

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 Councils of Government 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.

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)

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

A. Summary of Significant Accounting Policies (Continued)

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.

B. Cash Deposits

At June 30, 2011, the carrying amount of all Council deposits was \$640,124 and the bank balance was \$648,253. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, all of the bank balance was covered by the Federal Deposit Insurance Corporation.

C. Receivables

Receivables at June 30, 2011 consisted of amounts due from operations.

D. Related Party Transactions

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

The Council participates in the Center's health insurance pool to provide health insurance to its eligible employees.

E. Contingencies

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

F. 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.

**EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

G. 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 *Forms and Publications*.

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 2011, 11.81 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, 2010 and 2011 were \$10,725, \$361,849 and \$1,044,304, respectively. 100 percent was contributed for 2009 and 2011 while 99% was contributed for 2010.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

G. Pension Plans (Continued)

ii. State Teachers Retirement System of Ohio (Continued)

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The 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, 2010 and 2011 were \$342,436, \$555,727 and \$763,110, respectively. 100 percent was contributed for 2009 and 2011 while 95% was contributed for 2010.

H. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

H. Postemployment Benefits (Continued)

i. School Employees Retirement System (Continued)

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 2011, 2.19 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active 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, 2010 and 2011 were \$4,908, \$82,968 and \$168,249, respectively. 100 percent was contributed for 2009 and 2011 while 99% was contributed for 2010.

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 2011, 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 years ended June 30, 2009, 2010 and 2011 were \$26,341, \$38,418 and \$54,508, respectively. 100 percent was contributed for 2009 and 2011 while 95% was contributed for 2010.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

I. Subsequent Event

On August 23, 2011, Council amended its by-laws and changed its name from the Educational Service Center Council of Governments to the Shared Services Council of Governments.

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

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

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	84.215X	152,297	152,297
Fund for the Improvement of Education	2011	84.215X	189,911	248,406
<i>Total Fund for the Improvement of Education</i>			<u>342,208</u>	<u>400,703</u>
Rehabilitation Services Demonstration and Training Programs	2010	84.235E	41,734	41,734
Rehabilitation Services Demonstration and Training Programs	2011	84.235E	52,519	73,436
<i>Total Rehabilitation Services Demonstration and Training Programs</i>			<u>94,253</u>	<u>115,170</u>
<i>Passed Through Ohio Department of Education:</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	2010	84.010	9,000	4,000
ARRA- Title I Grants to Local Educational Agencies	2010	84.389	0	5,853
ARRA- Title I Grants to Local Educational Agencies	2011	84.389	0	29,771
<i>Total Title I, Part A Cluster</i>			<u>9,000</u>	<u>39,624</u>
Special Education Cluster (IDEA):				
Special Education Grants to States	2009	84.027	53,934	47
Special Education Grants to States	2010	84.027	256,720	285,819
Special Education Grants to States	2011	84.027	2,559,941	2,815,857
Special Education-Preschool Grants	2010	84.173	24,726	530
Special Education-Preschool Grants	2011	84.173	88,315	127,950
ARRA- Special Education-Preschool Grants	2011	84.392	99,736	124,750
<i>Total Special Education Cluster (IDEA)</i>			<u>3,083,372</u>	<u>3,354,953</u>
Special Education State Personnel Development	2010	84.323	0	7,500
Special Education State Personnel Development	2011	84.323	22,537	58,503
<i>Total Special Education State Personnel Development</i>			<u>22,537</u>	<u>66,003</u>
English Lanuguage Acquisition Grants	2010	84.365	19,531	14,293
English Lanuguage Acquisition Grants	2011	84.365	26,130	28,689
<i>Total English Language Acquisition Grants</i>			<u>45,661</u>	<u>42,982</u>
Improving Teacher Quality State Grants	2010	84.367	21,324	7,607
Improving Teacher Quality State Grants	2011	84.367	147,419	157,518
<i>Total Improving Teacher Quality State Grants</i>			<u>168,743</u>	<u>165,125</u>
Twenty-First Century Community Learning Centers	2010	84.287	23,400	25,700
Twenty-First Century Community Learning Centers	2011	84.287	26,000	26,000
<i>Total Twenty-First Century Community Learning Centers</i>			<u>49,400</u>	<u>51,700</u>
Safe and Drug-Free Schools and Communities_State Grants	2010	84.186	1,438	809
Safe and Drug-Free Schools and Communities_State Grants	2011	84.186	10,456	11,425
<i>Total Safe and Drug-Free Schools and Communities</i>			<u>11,894</u>	<u>12,234</u>
<i>Passed Through The Ohio Department of Health</i>				
<i>Early Intervention Services (IDEA) Cluster:</i>				
ARRA Special Education - Grants for Infants and Families with Disabilities, Recovery Act (Help Me Grow, Part C)	2010	84.393A	42,908	154,148
Special Education - Grants for Infants and Families with Disabilities, (Help Me Grow, Part C)	2010	84.181	0	37,148
ARRA Special Education - Grants for Infants and Families with Disabilities, Recovery Act (Help Me Grow, Part C)	2011	84.393A	767,045	767,045
Special Education - Grants for Infants and Families with Disabilities, (Help Me Grow, Part C)	2011	84.181	968,630	968,630
<i>Total Early Intervention Services (IDEA) Cluster</i>			<u>1,778,583</u>	<u>1,926,971</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>5,605,651</u>	<u>6,175,465</u>

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

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed through the Ohio Department of Job & Family Services</i>				
Refugee and Entrant Assistance State Administered Programs	2010	93.576	298,461	299,210
Refugee and Entrant Assistance State Administered Programs	2011	93.576	<u>55,320</u>	<u>46,292</u>
<i>Total Refugee and Entrant Assistance State Administered Programs</i>			<u>353,781</u>	<u>345,502</u>
<i>Passed through the Ohio Department of Health & Human Services</i>				
Temporary Assistance for Needy Families	2010	93.558	313,912	80,653
Temporary Assistance for Needy Families	2011	93.558	<u>0</u>	<u>6,000</u>
<i>Total Temporary Assistance for Needy Families</i>			<u>313,912</u>	<u>86,653</u>
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	2010	93.768	4,160	66
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	2011	93.768	<u>181,500</u>	<u>195,936</u>
<i>Total Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities</i>			<u>185,660</u>	<u>196,002</u>
<i>Passed through the Ohio Department of Job and Family Services</i>				
Community-Based Child Abuse Prevention Grants	2011	93.590	<u>169,243</u>	<u>169,243</u>
			<u>169,243</u>	<u>169,243</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,022,596</u>	<u>797,400</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	8,002	21,814
<i>Passed through the Ohio Department of Developmental Disabilities</i>				
WIA Adult Program	2010	17.258	<u>55,947</u>	<u>203,373</u>
<i>Total WIA Cluster</i>			<u>63,949</u>	<u>225,187</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>63,949</u>	<u>225,187</u>
TOTALS			<u>\$ 6,692,196</u>	<u>\$ 7,198,052</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, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the Center's federal award programs. 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.

NOTE C – TRANSFERS

The Center generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with ODE's approval, the Center can transfer unspent Federal assistance to the succeeding year, thus allowing the Center a total of 27 months to spend the assistance. During fiscal year 2011, the Ohio Department of Education (ODE) and the Franklin County Department of Job and Family Services authorized the following transfers:

CFDA Number	Program Title	Grant Year	Transfers Out	Transfers In
84.389	Title I, Part A Improving Basic Programs Operated By Local Educational Agencies, ARRA	2010	\$ 25,073	
84.389	Title I, Part A Improving Basic Programs Operated By Local Educational Agencies, ARRA	2011		\$ 25,073
84.323	Special Education - State Personnel Development Grant	2010	12,350	
84.323	Special Education - State Personnel Development Grant	2011		12,350
84.186	Safe and Drug-Free Schools and Communities State Grants	2010	970	
84.186	Safe and Drug-Free Schools and Communities State Grants	2011		970
84.173	Special Education Preschool Grants	2009	1,552	
84.173	Special Education Preschool Grants	2010		1,552
84.173	Special Education Preschool Grants	2010	6,035	
84.173	Special Education Preschool Grants	2011		6,035
84.392	Special Education Preschool Grants, ARRA	2010	17,959	
84.392	Special Education Preschool Grants, ARRA	2011		17,959
93.558	Temporary Assistance for Needy Families	2008	42,232	
93.558	Temporary Assistance for Needy Families	2010		42,232
93.558	Temporary Assistance for Needy Families	2009	10,113	
93.558	Temporary Assistance for Needy Families	2010		10,113

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

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE D – CORRECTION TO PRIOR YEAR FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE

The Educational Service Center of Central Ohio reported incorrect pass-through agencies and Catalog of Federal Domestic Assistance (CFDA) for fiscal year 2010 as follows:

Year	Grant	Pass-Through Entity Reported <i>(Correction)</i>	CFDA # Originally Reported <i>(Correction)</i>
2010	Refugee and Entrant Assistance State Administered Programs	Ohio Dept. of Developmental Disabilities <i>Ohio Dept. of Job & Family Services</i>	93.566 93.576
2009	Refugee and Entrant Assistance State Administered Programs	Ohio Dept. of Developmental Disabilities <i>Ohio Dept. of Job & Family Services</i>	93.566 93.576



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, 2011, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 29, 2012, wherein we noted the Center adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We noted certain matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated February 29, 2012.

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.

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

Dave Yost
Auditor of State

February 29, 2012



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 each of the Center's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the Center's major federal programs. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Center's compliance based on our audit.

Our compliance audit followed 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*. These 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 these 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 these requirements.

As described in finding 2011-001 in the accompanying schedule of findings, the Center did not comply with requirements regarding Subrecipient Monitoring applicable to its Fund for the Improvement of Education major federal program. Compliance with this requirement 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 programS for the year ended June 30, 2011.

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 2011-001 to be a material weakness.

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

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Center's management in a separate letter dated February 29, 2012.

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

February 29, 2012

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	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 – CFDA # 84.215x Unqualified – Remaining Major Programs Listed Below
<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) Fund for the Improvement of Education- Teaching American History (CFDA #84.215X) Refugee and Entrant Assistance Discretionary Grants – Refugee School Impact (CFDA #93.576) ARRA/Early Intervention Services (IDEA) Cluster (CFDA #84.181 & 84.393A)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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**Subrecipient Monitoring – Material Weakness/Material Non-Compliance
Fund for the Improvement of Education Grant**

Finding Number	2011-001
CFDA Title and Number	84.215x – Fund for the Improvement of Education Grant
Federal Award Number / Year	U215X090277/2011 U215X060152/2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	N/A

OMB Circular A-133, Subpart D, § 400(d) states, in part, that a pass-through entity shall perform the following for the Federal awards it makes:

... (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

... (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part.

OMB Circular A-133, Subpart C, § 310(b)(3) states, in part, that a subrecipient of federal awards shall provide total federal awards expended for each Federal program and the CFDA number.

31 U.S.C. Section 7502(f)(2)(B) states that "each pass-through entity shall monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means.

34 C.F.R. 75.560 – 75.564 require grantees to have a current indirect cost rate agreement in order to charge indirect costs to a grant.

The ESC obtained a multi-year Fund for the Improvement of Education grant award from the U.S. Department of Education; the grant was used primarily to provide area schools with training programs regarding American History curriculum. To accomplish this objective the ESC served as a pass-through entity, providing grant funding to its subrecipient, the Ohio Historical Society (OHS).

As a pass-through entity the ESC was responsible for implementing internal controls to monitor its subrecipient to ensure it complied with the rules and regulations related to the federal program. Pass-through entities should also periodically assess these types of procedures to ensure they are operating effectively as intended, as well as to ensure that proper documentation is being requested from the subrecipient and maintained. However the ESC's system of internal controls over subrecipient monitoring was not effective to ensure its subrecipient complied with federal compliance objectives related to the Fund for the Improvement of Education (Hands on History) Grant.

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

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

**Subrecipient Monitoring – Material Weakness/Material Non-Compliance
Fund for the Improvement of Education Grant**

Finding Number	2011-001
CFDA Title and Number	84.215x – Fund for the Improvement of Education Grant
Federal Award Number / Year	U215X090277/2011 U215X060152/2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	N/A

While the ESC reviewed and maintained documentation OHS submitted with its drawdown requests, the ESC did not ensure that monies it disbursed to OHS for this grant were included on OHS' schedule of federal awards expenditures, did not obtain a copy of OHS' indirect cost rate proposal, and did not make determinations that expenditures made by OHS were allowable in the context of the grant.

Grant expenditures made by OHS were subject to 2 C.F.R. Part 225, Appendix A (also known as OMB Circular A-87) Attachment A Section C1, which describes the basic guidelines affecting allowability of direct and indirect costs. To be allowable under Federal awards, costs must be adequately documented and meet general criteria therein.

OMB Circular A-87, Appendix B paragraph 8(h), paragraphs (3) and (4) provide standards regarding time distribution for salaries and wages, in part

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications (at least semi-annually) that the employees worked solely on that program for the period covered by the certification.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of the appendix.

We noted the following possible non-compliance at the subrecipient level:

- Eleven teachers who did not serve the Fund for the Improvement of Education (Hands on History) program attended seminars; grant funds were used to pay the related costs for those teachers in the amount of \$3,784.
- Salaries and fringe benefits for the Program Coordinator and Program Curator at the OHS in the amount of \$114,281 were charged to the grant, but no time and effort documentation was provided.
- OHS charged indirect costs to the grant but did not provide the ESC with a copy of its indirect cost rate proposal.
- OHS did not include Fund for the Improvement of Education Grant monies expended on its schedule of federal awards expenditures.

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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**Subrecipient Monitoring – Material Weakness/Material Non-Compliance
Fund for the Improvement of Education Grant**

Finding Number	2011-001
CFDA Title and Number	84.215x – Fund for the Improvement of Education Grant
Federal Award Number / Year	U215X090277/2011 U215X060152/2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	N/A

The lack of sufficient subrecipient monitoring controls at the ESC could have resulted in questioned costs of \$118,065 of the ESC’s Fund for the Improvement of Education Grant total expenditures of \$400,703.

We recommend the ESC enhance its controls over subrecipient monitoring to ensure the OHS includes applicable grant expenditures on its schedule of federal awards expenditures, provides the ESC with documentation to facilitate its monitoring activities, as well as ensure allowability of OHS’ costs charged to the Fund for the Improvement of Education Grant.

Officials’ Response and Corrective Action Plan:

The ESC acknowledges the responsibility to monitor sub-recipient grant compliance based on the aforementioned requirements. Various factors resulted in issues as it relates to monitoring this sub-recipient, primarily employee turnover at the program level at both the ESC and OHS. We have already discussed the above items with the CFO of OHS as well as their auditors and have plans in place to follow up on our auditor’s observations as well as putting procedures in place to ensure that we receive all necessary information to support time and effort reporting. Subsequently, we have received approved cost allocation plans for fiscal 2011 and 2012. Also, in conjunction with the fiscal 2012 audit of OHS we will have the auditors review compliance on 2011 grant expenditures as well as 2012 in accordance with grant reporting requirements of OMB Circular A-133.

Anticipated Completion Date: Alan Hutchinson, Treasurer & CFO
Responsible Contact: February 29, 2012

EDUCATIONAL SERVICE CENTER OF CENTRAL OHIO
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2010-001	Finding for Recovery- Calculation Error of Severance Payout	Yes	
2010-002	Special Education Questioned Cost- Allowable Costs, Cash Management, Period of Availability	Yes	

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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
MARCH 27, 2012