



Dave Yost • Auditor of State

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

North Central Ohio Educational Service Center
Seneca County
65 Saint Francis Avenue
Tiffin, Ohio 44883-3413

To the Governing Board:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2011, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

March 9, 2011

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- In total, net assets of governmental activities increased \$633,515 which represents a 158.13% increase from 2009. Increase due to an extraordinary item received. See Note 2.O.
- General revenues accounted for \$3,458,666 in revenue or 18.93% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$14,810,549 or 81.07% of total revenues of \$18,269,215.
- The ESC had \$17,826,417 in expenses related to governmental activities; \$14,810,549 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$3,458,666 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$16,263,388 in revenues, \$15,684,179 in expenditures and other financing uses and \$190,717 in extraordinary items. During fiscal year 2010, the general fund's fund balance increased \$769,926 from a balance of \$512,459 to a balance of \$1,282,385.

Using these Basic Financial Statements

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

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

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the ESC as a whole, the financial position of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the ESC's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the ESC's Fiduciary Responsibilities

The ESC is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The ESC also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

The ESC as a Whole

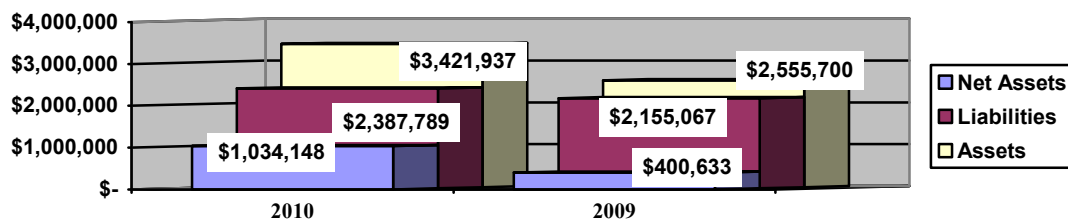
Recall that the statement of net assets provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net assets for 2010 and 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current assets	\$ 3,139,630	\$ 2,335,346
Capital assets, net	282,307	220,354
Total assets	<u>3,421,937</u>	<u>2,555,700</u>
<u>Liabilities</u>		
Current liabilities	1,647,975	1,583,945
Long-term liabilities	739,814	571,122
Total liabilities	<u>2,387,789</u>	<u>2,155,067</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	282,307	220,354
Restricted	159,285	200,382
Unrestricted (deficit)	592,556	(20,103)
Total net assets	<u>\$ 1,034,148</u>	<u>\$ 400,633</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the ESC's assets exceeded liabilities by \$1,034,148. Of this total, \$159,285 is restricted in use leaving the ESC with unrestricted net assets of \$592,556. The graph below illustrates the ESC's governmental activities assets, liabilities, and net assets for 2010 and 2009.

Governmental Activities



**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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The table below shows the change in net assets for fiscal years 2010 and 2009.

	Change in Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 12,875,804	\$ 10,734,808
Operating grants and contributions	1,934,745	2,799,281
General revenues:		
Grants and entitlements, unrestricted	3,145,738	3,201,902
Investment earnings	4,502	13,905
Other	308,426	283,417
Total revenues	<u>18,269,215</u>	<u>17,033,313</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	1,018,973	605,980
Special	5,326,874	5,130,860
Support services:		
Pupil	4,002,939	3,358,773
Instructional staff	3,347,353	3,570,424
Board of education	66,963	51,627
Administration	1,963,255	1,818,242
Fiscal	595,165	597,552
Business	114,677	133,338
Operations and maintenance	575,182	491,855
Pupil transportation	146,157	126,899
Central	529,212	548,198
Operations of non-instructional services:		
Food service operations	50,877	23,082
Other non-instructional services	88,790	84,591
Total expenses	<u>17,826,417</u>	<u>16,541,421</u>
<u>Extraordinary items</u>		
Settlement revenues	791,108	
Settlement payments	(600,391)	
Total extraordinary items	<u>190,717</u>	
Change in net assets	633,515	491,892
Net assets (deficit) at beginning of year	<u>400,633</u>	<u>(91,259)</u>
Net assets at end of year	<u><u>\$ 1,034,148</u></u>	<u><u>\$ 400,633</u></u>

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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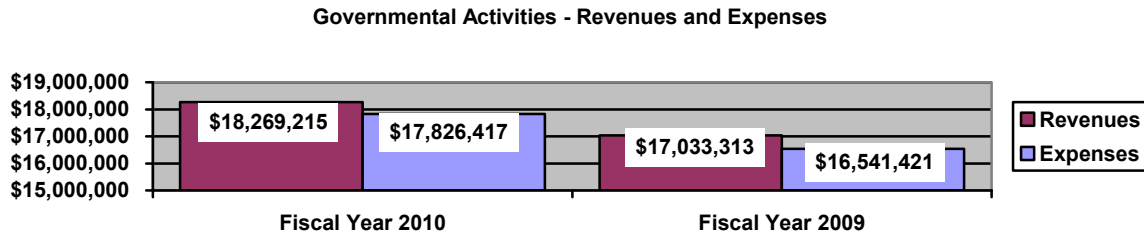
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED**

Governmental Activities

Net assets of the ESC's governmental activities increased \$633,515. Total governmental expenses of \$17,826,417 were offset by program revenues of \$14,810,549, general revenues of \$3,458,666 and extraordinary items of \$190,717. Program revenues supported 83.08% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from contract services and charges for services. These revenue sources represent 70.48% of total governmental revenue.

The largest expense of the ESC is for support services. Support services expenses totaled \$11,340,903 or 63.62% of total governmental expenses for fiscal 2010.

The graph below presents the ESC's governmental activities revenues and expenses for fiscal year 2010 and 2009.



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.

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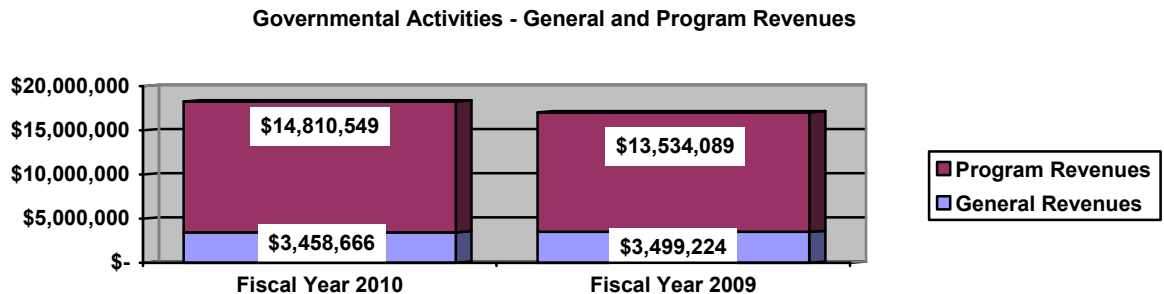
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED

Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses				
Instruction:				
Regular	\$ 1,018,973	\$ 41,077	\$ 605,980	\$ 39,993
Special	5,326,874	1,226,318	5,130,860	1,083,022
Support services:				
Pupil	4,002,939	759,154	3,358,773	693,880
Instructional staff	3,347,353	355,115	3,570,424	379,042
Board of education	66,963	66,834	51,627	51,627
Administration	1,963,255	202,456	1,818,242	186,928
Fiscal	595,165	57,373	597,552	99,718
Business	114,677	114,677	133,338	98,022
Operations and maintenance	575,182	38,143	491,855	87,448
Pupil transportation	146,157	91,995	126,899	74,267
Central	529,212	(7,804)	548,198	126,679
Operations of non-instructional services:				
Food service operations	50,877	674	23,082	2,115
Other non-instructional services	88,790	69,856	84,591	84,591
Total expenses	\$ 17,826,417	\$ 3,015,868	\$ 16,541,421	\$ 3,007,332

For all governmental activities, program revenue support is 83.08%. The primary support for the ESC is contracted fees for services provided to other districts.

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



**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED

The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$1,359,758, which is higher than last year's total of \$691,795. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	<u>Fund Balance June 30, 2010</u>	<u>Fund Balance June 30, 2009</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
General	\$ 1,282,385	\$ 512,459	\$ 769,926	150.24 %
Other Governmental	<u>77,373</u>	<u>179,336</u>	<u>(101,963)</u>	(56.86) %
Total	<u>\$ 1,359,758</u>	<u>\$ 691,795</u>	<u>\$ 667,963</u>	96.56 %

General Fund

The ESC's general fund balance increased by \$769,926. The increase in fund balance can be attributed to the ESC providing new services, expanding on existing programs and extraordinary items resulting in \$190,717. Revenues exceeded expenditures in fiscal year 2010 by \$586,827. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
<u>Revenues</u>				
Contract services	\$ 3,620,149	\$ 3,956,242	\$ (336,093)	(8.50) %
Earnings on investments	4,502	13,905	(9,403)	(67.62) %
Tuition	8,582,644	6,104,965	2,477,679	40.58 %
Intergovernmental	3,145,738	3,201,902	(56,164)	(1.75) %
Other revenues	<u>910,355</u>	<u>947,853</u>	<u>(37,498)</u>	(3.96) %
Total	<u>\$ 16,263,388</u>	<u>\$ 14,224,867</u>	<u>\$ 2,038,521</u>	14.33 %
<u>Expenditures</u>				
Instruction	\$ 6,115,002	\$ 5,542,618	\$ 572,384	10.33 %
Support services	9,491,053	8,042,661	1,448,392	18.01 %
Non-instructional services	<u>70,506</u>	<u>84,591</u>	<u>(14,085)</u>	(16.65) %
Total	<u>\$ 15,676,561</u>	<u>\$ 13,669,870</u>	<u>\$ 2,006,691</u>	14.68 %

The increase in tuition revenue of \$2,477,679 is a result of the amount of services the ESC provides to local districts. This increase in revenue is a result in the amount of money districts have available to spend due to the additional funding available to local districts through the American Recovery Reinvestment Act. These revenues are in direct correlation with the increase in instruction and support services expenditures during the fiscal year. The ESC hired additional employees to fill a variety of positions such as teachers and aides. Interest revenue decreased \$9,403 or 67.62% due to the decline in interest rates. All other revenues and expenditures remain comparable to the prior year and need no further analysis.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the ESC had \$282,307 invested in furniture and equipment and software. This entire amount is reported in governmental activities. The following table shows 2010 balances compared to 2009.

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

	Governmental Activities	
	2010	2009
Furniture and equipment	\$ 233,139	\$ 220,354
Software	49,168	
Total	<u>\$ 282,307</u>	<u>\$ 220,354</u>

The overall increase in capital assets of \$61,953 is due to capital outlays of \$259,565 exceeding depreciation of \$105,150 and disposals net of accumulated depreciation of \$92,462 in the fiscal year.

Debt Administration

At June 30, 2010, the ESC had no debt outstanding.

Current Financial Related Activities

Fiscal year 2010, much like previous fiscal years, brought major changes in personnel and programs to the educational service center (ESC). The most significant change came with the sponsorship of a community school called the North Central Academy (NCA) on July 1, 2009. The North Central Academy serves students in grades 6-12 for Seneca, Wyandot, and Sandusky Counties. The ESC employed fifteen new staff members to serve NCA. NCA provides a viable educational program for at-risk youths and allows the NCOESC additional opportunities to provide needed services for students who may not receive these services in a traditional school setting. In addition, the ESC added or expanded the following programs at the requests of our school districts; autism, vision specialist, hearing specialist, interpreter, physical education aide, dean of students, and a student services coordinator.

The ESC relies heavily on contracts with local, city, and exempted village school districts in Seneca, Sandusky, Marion, Union, and Wyandot Counties. The ESC closely monitors changes in cash and determine cost cutting methods to preserve fund balance while maintaining a high quality of services. The ESC continues to explore alternative means to generate revenues by expanding service and reducing costs to our districts without sacrificing service.

The ESC is financial sound; however, fiscal year 2010 has its various challenges. There are many factors that are beyond the control of management which can impact the financial condition. School districts have experienced major changes in legislation, school funding initiatives, and local economic conditions, as well as, increased costs for health care.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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Furthermore, since fiscal year 1994 there have been no increases in funding from the State. In fiscal year 2008, the ESC was notified by the Ohio Department of Education of a reduction of 9.62% in the state per-pupil annual funding. The cut was based upon the district ADM counts as of the February 2008 number two foundation payment. This direct cut in State foundation revenue continues.

In order to continue to be financially stable, the ESC is preparing a forecast to assist with long term planning, provide opportunities to improve services, and identify potential financial issues that could impact the ESCs financial condition. While there are many factors that can impact the financial condition, the ESCs ultimate goal is to meet the needs of our educational partners through excellent service with cost effective cost strategies.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Rhonda Feasel, Treasurer, North Central Ohio Educational Service Center, 65 Saint Francis Ave., Tiffin, Ohio 44883-3413.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,517,369
Cash with fiscal agent	39,600
Receivables:	
Intergovernmental	540,721
Prepayments	41,940
Capital assets:	
Depreciable capital assets, net.	282,307
	<hr/>
Total assets.	3,421,937
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Liabilities:	
Accounts payable.	81,872
Accrued wages and benefits	1,220,293
Pension obligation payable.	222,452
Intergovernmental payable	115,739
Unearned revenue	7,619
Long-term liabilities:	
Due within one year.	110,841
Due within more than one year	628,973
	<hr/>
Total liabilities	2,387,789
	<hr/>
Net Assets:	
Invested in capital assets	282,307
Restricted for:	
Locally funded programs	84,646
Federally funded programs	71,182
Public school support	604
Other purposes	2,853
Unrestricted	592,556
	<hr/>
Total net assets	\$ 1,034,148
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	
	Expenses			Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 1,018,973	\$ 858,329	\$ 119,567	\$ (41,077)
Special	5,326,874	4,066,315	34,241	(1,226,318)
Support services:				
Pupil	4,002,939	3,221,168	22,617	(759,154)
Instructional staff	3,347,353	1,930,291	1,061,947	(355,115)
Board of education	66,963		129	(66,834)
Administration	1,963,255	1,356,068	404,731	(202,456)
Fiscal	595,165	465,649	72,143	(57,373)
Business	114,677			(114,677)
Operations and maintenance	575,182	447,173	89,866	(38,143)
Pupil transportation	146,157		54,162	(91,995)
Central	529,212	510,050	26,966	7,804
Operation of non-instructional services:				
Food service operations	50,877	20,761	29,442	(674)
Other non-instructional services	88,790		18,934	(69,856)
Total governmental activities	<u>\$ 17,826,417</u>	<u>\$ 12,875,804</u>	<u>\$ 1,934,745</u>	<u>(3,015,868)</u>
General Revenues:				
Grants and entitlements not restricted to specific programs				3,145,738
Investment earnings				4,502
Miscellaneous				<u>308,426</u>
Total general revenues				<u>3,458,666</u>
Extraordinary items:				
Settlement revenues				791,108
Settlement payments				<u>(600,391)</u>
Total general revenues and extraordinary items				<u>3,649,383</u>
Change in net assets				633,515
Net assets at beginning of year				<u>400,633</u>
Net assets at end of year				<u>\$ 1,034,148</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 2,386,895	\$ 130,474	\$ 2,517,369
Cash with fiscal agent.	39,600		39,600
Receivables:			
Intergovernmental	372,103	168,618	540,721
Prepayments.	33,571	8,369	41,940
Total assets	<u>\$ 2,832,169</u>	<u>\$ 307,461</u>	<u>\$ 3,139,630</u>
Liabilities:			
Accounts payable	\$ 26,689	\$ 55,183	\$ 81,872
Accrued wages and benefits.	1,208,612	11,681	1,220,293
Compensated absences payable		14,370	14,370
Intergovernmental payable	89,008	26,731	115,739
Unearned revenue.		7,619	7,619
Deferred revenue	14,106	103,421	117,527
Pension obligation payable	211,369	11,083	222,452
Total liabilities.	<u>1,549,784</u>	<u>230,088</u>	<u>1,779,872</u>
Fund Balances:			
Reserved for encumbrances	55,415	172,378	227,793
Reserved for prepayments.	33,571	8,369	41,940
Unreserved, undesignated (deficit), reported in:			
General fund.	1,193,399		1,193,399
Special revenue funds		(103,374)	(103,374)
Total fund balances	<u>1,282,385</u>	<u>77,373</u>	<u>1,359,758</u>
Total liabilities and fund balances	<u>\$ 2,832,169</u>	<u>\$ 307,461</u>	<u>\$ 3,139,630</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

Total governmental fund balances			\$ 1,359,758
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			282,307
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Contract service receivable	\$	14,001	
Other receivable		3,680	
Intergovernmental receivable		99,671	
Tuition receivable		175	
		<hr/>	
Total			117,527
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(725,444)	
		<hr/>	
Total			<hr/> (725,444) <hr/>
Net assets of governmental activities			<hr/> \$ 1,034,148 <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Charges for services		\$ 4,125	\$ 4,125
Earnings on investments	\$ 4,502		4,502
Tuition.	8,582,644		8,582,644
Classroom materials and fees	13,266		13,266
Contributions and donations	14,248	9,005	23,253
Contract services.	3,620,149	48,447	3,668,596
Other local revenues	882,841	17,333	900,174
Intergovernmental - intermediate	1,146		1,146
Intergovernmental - state	3,144,592	565,763	3,710,355
Intergovernmental - federal		1,303,233	1,303,233
Total revenues	<u>16,263,388</u>	<u>1,947,906</u>	<u>18,211,294</u>
Expenditures:			
Current:			
Instruction:			
Regular.	963,569	135,506	1,099,075
Special	5,151,433	34,241	5,185,674
Support services:			
Pupil	3,964,307	17,860	3,982,167
Instructional staff	2,213,300	1,113,587	3,326,887
Board of education	65,463	1,500	66,963
Administration	1,501,870	419,751	1,921,621
Fiscal	500,371	85,091	585,462
Business.	113,682		113,682
Operations and maintenance	488,964	93,422	582,386
Pupil transportation	91,995	54,162	146,157
Central	551,101	35,378	586,479
Operation of non-instructional services:			
Food service operations		50,877	50,877
Operation of non-instructional.	70,506	16,112	86,618
Total expenditures	<u>15,676,561</u>	<u>2,057,487</u>	<u>17,734,048</u>
Excess/(deficiency) of revenues over/(under) expenditures.	<u>586,827</u>	<u>(109,581)</u>	<u>477,246</u>
Other financing sources (uses):			
Transfers in.		7,618	7,618
Transfers (out)	(7,618)		(7,618)
Total other financing sources (uses)	<u>(7,618)</u>	<u>7,618</u>	
Extraordinary items:			
Settlement revenues	791,108		791,108
Settlement payments	(600,391)		(600,391)
Total extraordinary items	<u>190,717</u>		<u>190,717</u>
Net change in fund balances	769,926	(101,963)	667,963
Fund balances at beginning of year	<u>512,459</u>	<u>179,336</u>	<u>691,795</u>
Fund balances at end of year.	<u>\$ 1,282,385</u>	<u>\$ 77,373</u>	<u>\$ 1,359,758</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

Net change in fund balances - total governmental funds	\$	667,963
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*Amounts reported for governmental activities in the
statement of activities are different because:*

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

Capital asset additions	\$	259,565	
Current year depreciation		<u>(105,150)</u>	
Total			154,415

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.	(92,462)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	57,921
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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.	<u>(154,322)</u>
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Change in net assets of governmental activities	\$	<u>633,515</u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2010

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 3,180	\$ 236,529
Receivables:		
Intergovernmental.		21,371
Prepayments		1,434
		<u>1,434</u>
Total assets.	<u>3,180</u>	<u>\$ 259,334</u>
Liabilities:		
Accounts payable.		\$ 1,233
Accrued wages and benefits		5,715
Pension obligation payable.		1,084
Intergovernmental payable		251,302
		<u>251,302</u>
Total liabilities		<u>\$ 259,334</u>
Net assets:		
Held in trust for scholarships	<u>3,180</u>	
Total net assets	<u>\$ 3,180</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Additions:	
Gifts and contributions.	\$ 7,500
Total additions.	<u>7,500</u>
Deductions:	
Scholarships awarded	<u>6,820</u>
Change in net assets.	680
Net assets at beginning of year	<u>2,500</u>
Net assets at end of year.	<u><u>\$ 3,180</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The North Central Ohio Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is a County Board of Education as defined by Section 3311.03 of the Ohio Revised Code. The ESC operates under an elected Board (7 members) and is an administrative entity providing supervision and various other services to the school districts located in Marion, Sandusky, Seneca and Wyandot Counties. The Board is its own fiscal agent and issues its own financial statements. The ESC serves as fiscal agent for the Seneca County Family and Children First Council (the "Council") with the rights and responsibilities established by Section 121.37 of the Ohio Revised Code. Council funds are maintained in a separate agency fund by the ESC.

The ESC provides regular and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services and facilities acquisitions. The ESC is staffed by 177 non-certified employees and 164 certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government).

The following organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 area school districts and service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and service centers. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating service center and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating districts are located. Each district's authority is limited to its representation on the Board. Financial information can be obtained by contacting Betty Schwiefert, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Marion Area Partners in Education (the "Council")

The Council was established in accordance with Ohio Revised Code Section 3301.74. The purpose of the Council shall be to provide insight, generate suggestions and to promote a positive relationship between the school and the community it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within our financial means in order that conscientious students may enter the work force with the knowledge, skills and attitudes that are at a level which makes initial employment feasible and additional training both productive and economical.

The membership may be selected from the fields of commercial, industrial service, agricultural and governmental agencies. Consideration may also be given to a citizen representative (one) from each of the local districts. Each local superintendent may also serve as an "ex officio" member.

PUBLIC ENTITY RISK POOLS

North Central Ohio Joint Self-Insurance Association (the "Association")

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, five school districts - Old Fort, Bettsville, Seneca East, Mohawk and New Riegel and one city school, Tiffin. The Association was established pursuant to Section 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the school districts and the North Central Ohio Educational Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association, but their financial statements are not reported with the ESC's financial statements.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers'

Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the ESC are used to account for (a) grants and other resources whose use is restricted to a particular purpose; or (b) food service operations.

PROPRIETARY FUND

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the ESC are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the ESC, available means expected to be received within thirty days of fiscal year end.

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

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

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

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

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

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

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

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

E. Cash and Investments

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

During fiscal year 2010, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$4,502, which includes \$681 assigned from other funds.

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

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

F. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC maintains a capitalization threshold of \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The ESC does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Furniture and equipment	5 - 20 years
Software	5 years

G. Interfund Balances

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loan receivables/payables". These amounts are eliminated in the governmental activities column on the statement of net assets. There were no interfund loans outstanding at June 30, 2010.

H. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2010, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of service, including three with the ESC were considered expected to become eligible to retire in accordance with GASB Statement No. 16 (See Note 9 for detail on compensated absences).

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

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

I. Accrued Liabilities and Long-Term Obligations

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

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

J. Fund Balance Reserves

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

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes includes amounts restricted for food service operations.

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

L. Prepayments

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

M. Estimates

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

N. Interfund Activity

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

O. Extraordinary and Special Items

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

2010, the ESC incurred two transactions that would be classified as extraordinary items. The extraordinary items involve a settlement from the closure of Sandusky County Educational Service Center. The ESC received revenue from this settlement and made payments to local school districts that were entitled money from the settlement. These transactions are reflected as extraordinary items on the statement of activities.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 resulted in the capitalization of software in the amount of \$54,631 and is recorded on the statement of net assets on page 12 of the financial statements of the ESC.

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

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

B. Deficit Fund Balances

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

<u>Nonmajor funds</u>	<u>Deficit</u>
Education foundation	\$ 156
Termination benefits	14,370
Management information systems	14
Alternative school	5,339
IDEA, Part B	6,083
Title I	9,158
IDEA preschool grant for the handicapped	457

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash with Fiscal Agent

The ESC had cash held by the Ohio Mid-Eastern Regional Education Service Agency, which included on the financial statements as "cash with fiscal agent". The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2010 was \$39,600.

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all ESC deposits was \$176,844. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$571,864 of the ESC's bank balance of \$821,864 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

C. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment</u>
		<u>Maturity</u>
		6 months or
		less
STAR Ohio	<u>\$ 2,580,234</u>	<u>\$ 2,580,234</u>

Interest Rate Risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the ESC's investment policy limits investment portfolio maturities to five years or less.

Credit Risk is the possibility that an issuer or other counter party to an investment will not fulfill its obligation. The ESC's investments in STAR Ohio were assigned an AAAM money market rating by Standard & Poor's.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The ESC's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 2,580,234</u>	<u>100.00</u>

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 176,844
Investments	2,580,234
Cash with fiscal agent	<u>39,600</u>
Total	<u>\$ 2,796,678</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 2,556,969
Private-purpose trust funds	3,180
Agency funds	<u>236,529</u>
Total	<u>\$ 2,796,678</u>

NOTE 5 - INTERFUND TRANSACTIONS

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

<u>Transfers to nonmajor governmental funds from:</u>	
General fund	<u>\$ 7,618</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues

collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2010 consisted of intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

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

NOTE 6 – RECEIVABLES – (Continued)

Governmental activities:

Intergovernmental \$ 540,721

All receivables are expected to be collected within the subsequent year.

NOTE 7 - CAPITAL ASSETS

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

	Balance 06/30/09	Additions	Disposals	Balance 06/30/10
Governmental activities:				
Furniture and equipment	\$ 605,522	\$ 204,934	\$ (147,444)	\$ 663,012
Software		54,631		54,631
Total capital assets, being depreciated	<u>605,522</u>	<u>259,565</u>	<u>(147,444)</u>	<u>717,643</u>
<i>Less: accumulated depreciation</i>				
Furniture and equipment	(385,168)	(99,687)	54,982	(429,873)
Software		(5,463)		(5,463)
Total accumulated depreciation	<u>(385,168)</u>	<u>(105,150)</u>	<u>54,982</u>	<u>(435,336)</u>
Governmental activities capital assets, net	<u><u>\$ 220,354</u></u>	<u><u>\$ 154,415</u></u>	<u><u>\$ (92,462)</u></u>	<u><u>\$ 282,307</u></u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 22,905
Special	491

Support services:

Pupil	1,241
Instructional staff	11,259
Administration	16,846
Fiscal	2,432
Operations and maintenance	9,273
Central	<u>40,703</u>

Total depreciation expense	<u><u>\$ 105,150</u></u>
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NOTE 8 - LONG-TERM OBLIGATIONS

During fiscal year 2010, the following changes occurred in governmental activities long-term obligations:

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

NOTE 8 - LONG-TERM OBLIGATIONS – (Continued)

	Balance Outstanding 06/30/09	Additions	Reductions	Balance Outstanding 06/30/10	Amounts Due in One Year
Governmental activities:					
Compensated absences payable	\$ 571,122	\$ 254,423	\$ (85,731)	\$ 739,814	\$ 110,841

Compensated absences will ultimately be paid from the fund from which the employee is paid, which is primarily the general fund.

NOTE 9 - COMPENSATED ABSENCES

Sick Leave:

Each full time professional staff member is entitled to 15 days sick leave with pay for each year under contract and accrues sick leave at the rate of one and one-fourth days for each calendar month under contract. Sick leave is cumulative to 200 days.

Severance Pay:

At the time of retirement from the ESC, a severance amount calculated by a prescribed formula applied to the employee's unused sick leave and daily rate of pay at the time of retirement from the ESC is granted to employees in compliance with Ohio law. Upon payment of severance pay, the retiring employee's sick leave accumulation is reduced to zero.

Retirement

Severance pay is based on a one-time, lump sum payment to eligible employees. An employee's eligibility for severance pay is determined as of the final date of employment. The criteria are as follows:

1. The individual retires from the ESC.
2. Retirement is defined as disability retirement or service retirement under any State or municipal retirement system in this State.
3. The individual must be eligible for disability or service retirement as of the last date of employment with the ESC.
4. The individual must prove acceptance into the retirement system within 120 days of his/her last day of employment by having received and cashed his/her first retirement check.
5. The individual must have not less than 10 years of service with this ESC, the state or its political subdivisions, or any combination thereof. The last 3 years of employment must be with the ESC.
6. The individual must sign for his/her severance check certifying that all eligibility criteria have been met.

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

NOTE 9 - COMPENSATED ABSENCES – (Continued)

7. In order to receive severance pay, classified and certified staff shall have provided written notification of his/her intention to retire 90 days prior to the anticipated retirement date. Administrative staff is required to provide written notification by April 1st of the retirement year.

The amount of the benefit due an employee shall be calculated as follows:

1. The employee's accrued, but unused sick leave will be multiplied by one-fourth.
2. The product will be multiplied by the per diem rate of pay at the time of retirement.
3. Per diem of those administrators previously employed by the Seneca-Wyandot County Educational Service Center under 230 day contracts using 230 contract days.

The amount of the benefit calculated in steps one and two shall not exceed the value of 50 days of accrued, but unused sick leave.

Receipt of payment for accrued but unused sick leave eliminates all sick leave credit accrued by the employee.

The Board pays severance pay to the estate or life insurance beneficiary of an employee who qualifies for retirement and who dies while actively employed.

Upon retirement, employees are entitled to compensation at their current rate of pay for all unused vacation leave to their credit up to a maximum of their earned, but unused vacation leave for the current year. Per diem of those individuals previously employed by the Seneca-Wyandot County Board of Education under 230 day contracts shall be calculated using 230 contract days.

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Employee Health Insurance

The ESC is a member of the North Central Ohio Joint Self-Insurance Association (the "Association"). This organization is a public entity risk pool (See Note 2.A.). The Association was established pursuant to Ohio Revised Code Section 9.833 in order to provide health care benefits.

Each member school ESC and educational service center pays premiums to the Association for employee medical, dental, vision, and life insurance premiums. The Association is responsible for the management and operations of the program. Upon withdrawal, the member is responsible for the payment of all Association liabilities to its employees,

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

NOTE 10 - RISK MANAGEMENT – (Continued)

dependents and designated beneficiaries accruing as a result of the withdrawal. Upon termination of the Association, all ESC's claims would be paid without regard to the ESC's account balance. The Association Board of Directors has the right to return monies to an exiting member subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 2.A.). The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program.

Each year, the participating school ESC's pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school ESC's is calculated as one experience and a common premium rate is applied to all school ESC's in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school ESC's that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer

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

NOTE 11 - PENSION PLANS – (Continued)

contributions. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June

30, 2010, 2009 and 2008 were \$449,765, \$269,273 and \$189,791, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

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

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

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

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

NOTE 11 - PENSION PLANS - (Continued)

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$988,611, \$914,357 and \$724,074, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$24,308 made by the ESC and \$17,364 made by the plan members.

C. Social Security System

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

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

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

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

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

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$75,261, \$149,627 and \$110,929, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$26,747, \$22,217 and \$13,675, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$76,047, \$70,335 and \$55,698, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

NOTE 13 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$40.52 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. However, due to State funding cuts the ESC was only funded \$36.23 per ADM.

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

NOTE 13 - STATE FUNDING – (Continued)

If additional funding is required and if a majority of the Boards of Education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$47.02 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating Boards approve or disapprove the apportionment. The districts to which the ESC provides services have agreed to pay \$6.50 per pupil to provide additional funding for services provided by the ESC.

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

The ESC is involved in no material litigation as either plaintiff or defendant.

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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
From local sources:				
Earnings on investments	\$ 12,871	\$ 14,000	\$ 4,533	\$ (9,467)
Tuition.	7,904,699	8,598,059	8,579,166	(18,893)
Classroom materials and fees	34,016	37,000	13,266	(23,734)
Contributions and donations	5,700	6,200	14,198	7,998
Other local revenues	639,600	695,703	743,567	47,864
Contract services.	2,987,829	3,249,906	3,511,373	261,467
Intergovernmental - intermediate	1,054	1,146	1,146	
Intergovernmental - state	2,843,885	3,093,336	3,144,592	51,256
Intergovernmental - federal	86,866	94,485		(94,485)
Total revenues	14,516,520	15,789,835	16,011,841	222,006
Expenditures:				
Current:				
Instruction:				
Regular	909,356	1,001,955	930,381	71,574
Special.	4,948,299	5,452,178	5,164,283	287,895
Support services:				
Pupil.	3,840,760	4,231,857	3,931,133	300,724
Instructional staff	2,064,989	2,275,264	2,191,940	83,324
Board of education	67,245	74,093	65,523	8,570
Administration.	1,415,139	1,559,241	1,495,795	63,446
Fiscal	469,772	517,608	533,617	(16,009)
Business	111,900	123,295	117,018	6,277
Operations and maintenance.	511,393	563,468	494,550	68,918
Pupil transportation	105,516	116,261	91,414	24,847
Central.	575,008	633,560	553,444	80,116
Operation of non-instructional services	69,351	76,413	73,275	3,138
Total expenditures	15,088,728	16,625,193	15,642,373	982,820
Excess/(deficiency) of revenues over (under) expenditures.	(572,208)	(835,358)	369,468	1,204,826
Other financing sources (uses):				
Refund of prior year's expenditures	460	500	102,082	101,582
Refund of prior year's receipts.	(122)	(134)	(134)	
Contingenciees	(170,827)	(188,222)		188,222
Transfers in	618,706	672,976	600,391	(72,585)
Transfers (out).	(557,542)	(614,316)	(608,009)	6,307
Advances in.	874	951	951	
Advances (out)	(635)	(700)		700
Total other financing sources (uses)	(109,086)	(128,945)	95,281	224,226
Extraordinary items:				
Settlement revenues	727,312	791,108	791,108	
Settlement payments	(544,904)	(600,391)	(600,391)	
Total extraordinary items	182,408	190,717	190,717	
Net change in fund balance	(498,886)	(773,586)	655,466	1,429,052
Fund balance at beginning of year	1,632,583	1,632,583	1,632,583	
Prior year encumbrances appropriated	45,789	45,789	45,789	
Fund balance at end of year	\$ 1,179,486	\$ 904,786	\$ 2,333,838	\$ 1,429,052

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTE TO THE SUPPLEMENTARY INFORMATION

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

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Board approve appropriations and estimated resources. The ESC's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

While reporting financial position and changes in financial position/fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements plus encumbrances.

The adjustments necessary to convert the results of operations for the fiscal year on the budget basis to the GAAP basis for the general fund are as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 655,466
Net adjustment for revenue accruals	251,547
Net adjustment for expenditure accruals	(127,046)
Net adjustment for other sources/(uses)	(102,899)
Adjustment for encumbrances	<u>92,858</u>
GAAP basis	<u>\$ 769,926</u>

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
National School Lunch Program	10.555	\$ 25,741	\$ 25,741
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
<u>Special Education Cluster:</u>			
Special Education Grants to States	84.027	1,052,963	1,055,351
Special Education Preschool Grant	84.173	182,551	180,418
ARRA - Special Preschool Grants	84.392	46,924	45,856
Total Special Education Cluster		1,282,438	1,281,625
<u>Title I Cluster:</u>			
Title I Grants to Local Educational Agencies	84.010	27,343	27,343
ARRA - Title I Grants to Local Educational Agencies	84.389	18,169	18,169
Total Title I Cluster		45,512	45,512
Twenty-First Century Community Learning Centers	84.287	16,634	16,626
LEP Title II	84.365	12,759	12,658
Total U.S. Department of Education		1,357,343	1,356,421
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<i>Passed Through Ohio Department of Health:</i>			
<u>Early Intervention Services (IDEA) Cluster:</u>			
Help Me Grow	84.181	48,535	48,535
ARRA - Help Me Grow	84.393 A	48,765	48,765
Total Early Intervention Services (IDEA) Cluster		97,300	97,300
Total Federal Receipts and Expenditures		\$ 1,480,384	\$ 1,479,462

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – NATIONAL SCHOOL LUNCH PROGRAM

Cash receipts from the U.S. Department of Agriculture are commingled with State grants and local receipts. It is assumed federal monies are expended first.



Dave Yost • Auditor of State

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

North Central Ohio Educational Service Center
Seneca County
65 Saint Francis Avenue
Tiffin, Ohio 44883-3413

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of North Central Ohio Educational Service Center, Seneca County, (the ESC) as of and for the year ended June 30, 2010, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated March 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the ESC's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

A handwritten signature in black ink, appearing to read "Dave Yost", with a stylized, flowing script.

Dave Yost
Auditor of State

March 9, 2011



Dave Yost • Auditor of State

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

North Central Ohio Educational Service Center
Seneca County
65 Saint Francis Avenue
Tiffin, Ohio 44883-3413

To the Governing Board:

Compliance

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

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

In our opinion, the North Central Ohio Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

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



Dave Yost
Auditor of State

March 9, 2011

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 24, 2011