



Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, Ohio 45365

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Shelby County, (the Center), as of and for the fiscal years ended June 30, 2010 and June 30, 2009, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Shelby County, as of June 30, 2010 and June 30, 2009, and the respective changes in modified cash financial position thereof for the fiscal years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2011, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The budgetary comparisons for the General Fund and major special revenue funds, and the Schedule of Federal Awards Receipts and Expenditures that is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are not a required part of the basic financial statements. The budgetary comparisons for the General Fund and major special revenue funds and the Schedule of Federal Awards Receipts and Expenditure are management's responsibility, and were derived from and relate 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

February 14, 2011

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

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

Financial Highlights

Key financial highlights for 2010 are as follows:

- In total, net cash assets of governmental activities decreased \$16,856 which represents a 1.47% decrease from 2009.
- General cash receipts accounted for \$427,606 or 8.07% of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$4,871,178 or 91.93% of total governmental activities cash receipts of \$5,298,784.
- The Center had \$5,315,640 in cash disbursements related to governmental activities; \$4,871,178 of these cash disbursements were offset by program specific charges for services and grants and contributions. General cash receipts supporting governmental activities (primarily unrestricted grants and entitlements) of \$427,606 were not adequate to provide for these programs.
- The Center's major governmental funds are the general fund, alternative school fund and the miscellaneous federal grants fund. The general fund had \$3,581,087 in cash receipts and other financing sources and \$3,650,701 in cash disbursements and other financing uses. During fiscal year 2010, the general fund's fund cash balance decreased \$69,614 from \$827,152 to \$757,538.
- The alternative school fund had \$501,718 in cash receipts and \$440,872 in cash disbursements. During fiscal year 2010, the alternative school fund's fund balance increased \$60,846 from \$225,931 to \$286,777.
- The miscellaneous federal grants fund had \$950,579 in cash receipts and \$938,857 in cash disbursements. During fiscal year 2010, miscellaneous federal grants fund's fund balance increased \$11,722 from \$3,834 to \$15,556.

Using these Modified Cash Basis Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Center's modified cash basis of accounting.

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Reporting the Center as a Whole

Statement of Net Assets - Cash Basis and the Statement of Activities - Cash Basis

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all cash basis financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets - modified cash basis and the statement of activities - modified cash basis answer this question. These statements include only net assets using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

These two statements report the Center's net cash assets and changes in those assets on a modified cash basis. This change in net cash assets is important because it tells the reader that, for the Center as a whole, the modified cash basis financial position of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Center's required educational programs and other factors.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

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

The Center's statement of net assets - modified cash basis and statement of activities - modified cash basis can be found on pages 11-12 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

All of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund financial statements provide a detailed view of the Center's general government operations and the basic services it provides.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Governmental fund information helps you determine whether there are more or fewer modified cash basis financial resources that can be spent in the near future to finance educational programs. Since the Center is reporting on the modified cash basis of accounting, there are no differences in the net assets and fund balances or changes in net assets and changes in fund balances. Therefore, no reconciliation is necessary between such financial statements.

However, differences will be apparent when comparing gross revenues and expenses on the fund financial statements to the statement of activities - modified cash basis due to advances between governmental funds being eliminated for reporting in the statement of activities - modified cash basis. The governmental fund statements can be found on pages 13-14 of this report.

Reporting the Center's Fiduciary Responsibilities

The Center is the trustee, or fiduciary, for scholarship programs. This activity is presented as a private-purpose trust fund. The Center also reports the external portion of monies invested on behalf of the Western Ohio Computer Organization and for Sidney City Schools, as its fiscal agent, in a separate investment trust fund. All of the Center's fiduciary activities are reported in separate statements of fiduciary net assets - modified cash basis and changes in fiduciary net assets - modified cash basis on pages 15 and 16. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 17-31 of this report.

Supplementary Information

The Center has presented budgetary comparison schedules for the general and the major special revenue funds as supplementary information on pages 33-35 of this report.

The Center as a Whole

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

The table on the next page provides a summary of the Center's net cash assets for 2010. A comparative analysis between 2010 and 2009 is also shown.

	Net Cash Assets	
	Governmental Activities 2010	Governmental Activities 2009
Assets:		
Equity in pooled cash and cash equivalents	\$1,126,535	\$1,143,391
Total assets	1,126,535	1,143,391
Net Cash Assets:		
Restricted	368,997	316,239
Unrestricted	757,538	827,152
Total net cash assets	\$1,126,535	\$1,143,391

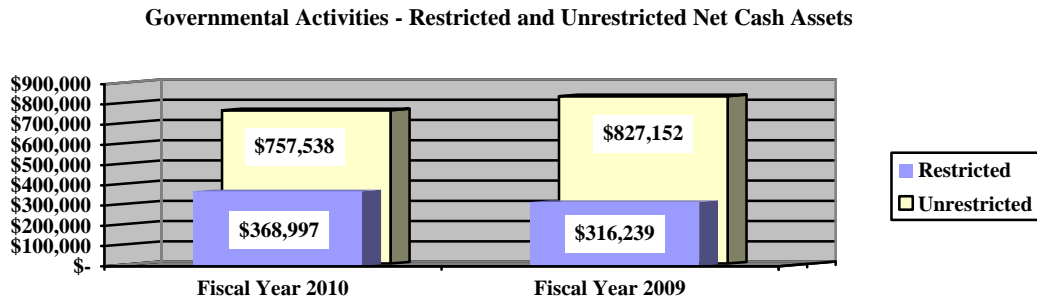
**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Over time, net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the Center's total net cash assets were \$1,126,535.

A portion of the Center's net cash assets, \$368,997 represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net cash assets of \$757,538 may be used to meet the Center's ongoing obligations to students, school districts, and creditors.

The graph below presents the Center's governmental activities restricted and unrestricted net assets for fiscal year 2010 and 2009.



The table below shows the change in net cash assets for fiscal year 2010. A comparative analysis between 2010 and 2009 is also shown.

	Change in Net Cash Assets	
	Governmental Activities 2010	Governmental Activities 2009
Cash Receipts:		
Program cash receipts:		
Charges for services and sales	\$3,182,231	\$3,098,765
Operating grants and contributions	1,688,947	1,355,736
General cash receipts:		
Grants and entitlements	382,180	389,131
Investment earnings	5,976	15,834
Other	39,450	33,536
Total cash receipts	5,298,784	4,893,002
Cash Disbursements:		
Program expenses:		
Instruction:		
Regular	549,166	555,507
Special	1,435,644	1,271,816

(Continued)

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

	Change in Net Cash Assets (Continued)	
	Governmental Activities 2010	Governmental Activities 2009
Cash Disbursements:		
Program expenses:		
Support services:		
Pupil	1,305,627	1,172,075
Instructional staff	1,258,008	978,465
Board of education	32,920	26,558
Administration	404,136	416,533
Fiscal	162,348	169,398
Business	4,087	394
Operations and maintenance	8	6,423
Pupil transportation	835	6,293
Central	151,568	150,939
Debt service:		
Principal retirement	9,341	9,044
Interest and fiscal charges	1,952	2,635
Total cash disbursements	5,315,640	4,766,080
Change in net cash assets	(16,856)	126,922
Net assets at beginning of year	1,143,391	1,016,469
Net assets at end of year	\$1,126,535	\$1,143,391

Governmental Activities

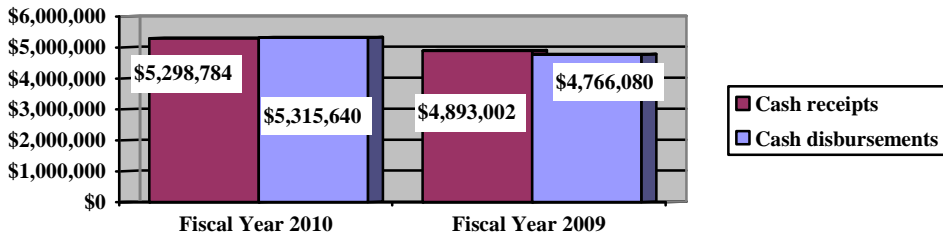
Net assets of the Center's governmental activities decreased \$16,856. Total governmental cash disbursements of \$5,315,640 were offset by program cash receipts of \$4,871,178 and general cash receipts of \$427,606. Program cash receipts supported 91.64% of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 60.05% of total governmental cash receipts.

The largest cash disbursement of the Center is for support services. Support services cash disbursements totaled \$3,319,537 or 62.45% of total governmental cash disbursements for fiscal 2010.

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

Governmental Activities - Cash Receipts and Disbursements



**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

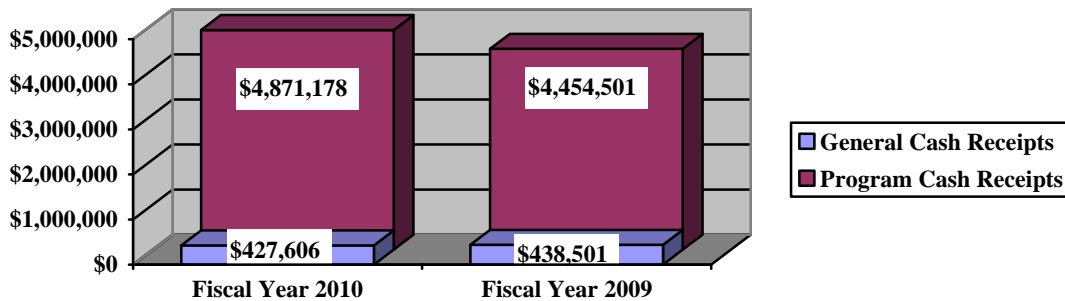
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

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. A comparative analysis between 2010 and 2009 is also shown.

	Governmental Activities			
	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program cash disbursements:				
Instruction:				
Regular	\$ 549,166	(\$ 61,064)	\$ 555,507	(\$40,025)
Special	1,435,644	200,434	1,271,816	140,953
Support services:				
Pupil	1,305,627	134,406	1,172,075	107,785
Instructional staff	1,258,008	78,391	978,465	6,023
Board of education	32,920	2,008	26,558	26,558
Administration	404,136	33,740	416,533	23,151
Fiscal	162,348	23,488	169,398	18,841
Business	4,087	32	394	394
Operations and maintenance	8	1	6,423	4,417
Pupil transportation	835	(195)	6,293	(4,985)
Central	151,568	21,928	150,939	16,788
Debt service:				
Principal retirement	9,341	9,341	9,044	9,044
Interest and fiscal charges	1,952	1,952	2,635	2,635
Total cash disbursements	\$5,315,640	\$444,462	\$4,766,080	\$311,579

The graph below presents the District's governmental activities cash receipts for fiscal year 2010 and 2009.

Governmental Activities - General and Program Cash Receipts



**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

The Center's Funds

The Center's governmental funds reported a combined fund cash balance of \$1,126,535, which is lower than last year's total of \$1,143,391. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2010 and 2009.

	Fund Cash Balance June 30, 2010	Fund Cash Balance June 30, 2009	Increase / Decrease	Percentage Change
General	\$ 757,538	\$ 827,152	(\$69,614)	(8.42) %
Alternative School	286,777	225,931	60,846	26.93 %
Miscellaneous Federal Grants	15,556	3,834	11,722	305.74 %
Other Governmental	66,664	86,474	(19,810)	(22.91) %
Total	\$1,126,535	\$1,143,391	(\$16,856)	(1.47) %

General Fund

The Center's general fund cash balance decreased \$69,614. Cash disbursements exceeded cash receipts for fiscal year 2010 by \$64,083. The table that follows assists in illustrating the cash financial activities of the general fund.

	2010 Amount	2009 Amount	Increase (Decrease)	Percentage Change
Cash Receipts:				
Contract services	\$3,147,062	\$3,085,122	\$ 61,940	2.01 %
Earnings on investments	5,976	15,785	(9,809)	(62.14) %
Other local revenues	39,450	34,036	5,414	15.91 %
Intergovernmental	382,180	389,131	(6,951)	(1.79) %
Total	3,574,668	3,524,074	50,594	1.44 %
Cash Disbursements:				
Instruction	1,418,252	1,299,573	118,679	9.13 %
Support services	2,209,740	2,194,490	15,250	0.69 %
Debt service	10,759	11,113	(354)	(3.19) %
Total	\$3,638,751	\$3,505,176	\$133,575	3.81 %

The most significant increase in cash receipts occurred in contract service revenue receipts. The increase in contract service revenue receipts was due to an increase in special education services provided. The decrease in earnings on investments was due primarily to the decrease in interest rates by the Federal Reserve. The increase in cash disbursements in instruction was due primarily to the increase in employee salaries and insurance.

Alternative School Fund

The alternative school fund had \$501,718 in cash receipts and \$440,872 in cash disbursements. During fiscal year 2010, the alternative school fund's fund cash balance increased \$60,846 from \$225,931 to \$286,777.

Miscellaneous Federal Grants Fund

The miscellaneous federal grants fund had \$950,579 in cash receipts and \$938,857 in cash disbursements. During fiscal year 2010, the miscellaneous federal grants fund's fund cash balance increased \$11,722 from \$3,834 to \$15,556.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Capital Assets and Debt Administration

Capital Assets

The Center does not record capital assets in the accompanying modified cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt Administration

At June 30, 2010, the Center had \$58,697 in capital lease obligations. Of this total, \$10,404 is due within one year and \$48,293 is due within greater than one year.

The Center is not permitted to issue debt. See Note 6 to the modified cash basis financial statements for additional information on the Center's capital leases.

Current Financial Related Activities

Overall, the Center is strong financially. As the preceding information shows, the Center relies heavily on contracts with local and city districts in Shelby County, State foundation revenue and grants. Contracts with Shelby County districts are expected to decrease in fiscal year 2011 due a decrease in service requests. However, continuing contracts, along with the Center's cash balance will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2011. Still, the future financial stability of the Center is not without challenges.

The first challenge is that the Center will be affected by the decline in enrollment in Shelby County over the past few years and the projected decline in the future. The Center receives funding based on the ADM of Shelby County school districts, so the continued decline will directly impact State funding. The Center constantly strives to provide more services in the most cost efficient manner.

Second, the Center has again been warned of extensive budget cuts from the State, but the State has yet to determine the amounts. While the Center has applied to other sources for funding and has made budget cuts, any shortfall in the revenue will fall on the Shelby County districts, which will have to increase their share of funding to continue the programs.

The Center's systems of budgeting and internal controls are well regarded. All of the Center's financial abilities will be needed to meet the financial challenges of the future.

With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality products and services to the districts in the future.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Cathy Doseck, Treasurer, Shelby County Educational Service Center, 129 E. Court St., Annex Building, Sidney, Ohio 45365.

EDUCATIONAL SERVICE CENTER
SHELBY COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2010

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$1,126,535
Total assets	<u>1,126,535</u>
Net Assets:	
Restricted for:	
Locally funded programs	47,411
State funded programs	2,142
Federally funded programs	15,556
Public school support	17,111
Other purposes	286,777
Unrestricted	757,538
Total net cash assets	<u><u>\$1,126,535</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Cash</u> <u>Disbursements</u>	<u>Program Cash Receipts</u> <u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Net (Disbursements)</u> <u>Receipts and Changes</u> <u>in Net Cash Assets</u> <u>Governmental</u> <u>Activities</u>
Governmental activities:				
Instruction:				
Regular	\$549,166	\$46,611	\$563,619	\$61,064
Special	1,435,644	1,198,819	36,391	(200,434)
Support services:				
Pupil	1,305,627	872,629	298,592	(134,406)
Instructional staff	1,258,008	523,429	656,188	(78,391)
Board of education	32,920	28,157	2,755	(2,008)
Administration	404,136	239,353	131,043	(33,740)
Fiscal	162,348	138,860		(23,488)
Business	4,087	4,055		(32)
Operations and maintenance	8	7		(1)
Pupil transportation	835	671	359	195
Central	151,568	129,640		(21,928)
Debt service:				
Principal retirement	9,341			(9,341)
Interest and fiscal charges	1,952			(1,952)
Total governmental activities	<u>\$5,315,640</u>	<u>\$3,182,231</u>	<u>\$1,688,947</u>	<u>(444,462)</u>
 General Revenues:				
Grants and entitlements not restricted to specific programs				382,180
Investment earnings				5,976
Miscellaneous				39,450
Total general cash receipts				<u>427,606</u>
 Change in net cash assets				 (16,856)
 Net cash assets at beginning of year				 <u>1,143,391</u>
 Net cash assets at end of year				 <u><u>\$1,126,535</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>General</u>	<u>Alternative Schools</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$757,538	\$286,777	\$15,556	\$66,664	\$1,126,535
Total assets	<u>757,538</u>	<u>286,777</u>	<u>15,556</u>	<u>66,664</u>	<u>1,126,535</u>
Fund Balances:					
Reserved for encumbrances	54,252	3,740	39,877	3,406	101,275
Unreserved, undesignated (deficit), reported in:					
General fund	703,286				703,286
Special revenue funds		283,037	(24,321)	63,258	321,974
Total fund balances	<u>\$757,538</u>	<u>\$286,777</u>	<u>\$15,556</u>	<u>\$66,664</u>	<u>\$1,126,535</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Alternative Schools</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:					
From local sources:					
Earnings on investments	\$5,976			\$4	\$5,980
Extracurricular				7,101	7,101
Contributions and donations				13,258	13,258
Contract services	3,147,062			28,068	3,175,130
Other local revenues	39,450	\$5,753			45,203
Intergovernmental - intermediate	1,336	495,965		85,149	582,450
Intergovernmental - state	380,844			90,194	471,038
Intergovernmental - federal			\$950,579	48,045	998,624
Total cash receipts	<u>3,574,668</u>	<u>501,718</u>	<u>950,579</u>	<u>271,819</u>	<u>5,298,784</u>
Cash disbursements:					
Current:					
Instruction:					
Regular	19,018	317,453	146,343	66,352	549,166
Special	1,399,234			36,410	1,435,644
Support services:					
Pupil	994,905		236,520	74,202	1,305,627
Instructional staff	591,304	50,157	510,740	105,807	1,258,008
Board of education	32,920				32,920
Administration	272,116	72,728	44,903	14,389	404,136
Fiscal	162,348				162,348
Business	4,087				4,087
Operations and maintenance	8				8
Pupil transportation	484		351		835
Central	151,568				151,568
Debt service:					
Principal retirement	8,877	464			9,341
Interest and fiscal charges	1,882	70			1,952
Total cash disbursements	<u>3,638,751</u>	<u>440,872</u>	<u>938,857</u>	<u>297,160</u>	<u>5,315,640</u>
Excess/deficiency of revenues over/under cash disbursements	<u>(64,083)</u>	<u>60,846</u>	<u>11,722</u>	<u>(25,341)</u>	<u>(16,856)</u>
Other financing sources (uses):					
Advances in	6,419			11,950	18,369
Advances (out)	(11,950)			(6,419)	(18,369)
Total other financing sources (uses)	<u>(5,531)</u>			<u>5,531</u>	
Net change in fund balances	(69,614)	60,846	11,722	(19,810)	(16,856)
Fund cash balances at beginning of year	827,152	225,931	3,834	86,474	1,143,391
Fund cash balances at end of year	<u>\$757,538</u>	<u>\$286,777</u>	<u>\$15,556</u>	<u>\$66,664</u>	<u>\$1,126,535</u>

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER
SHELBY COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2010

	<u>Private Purpose Trust</u>	<u>Investment Trust</u>
Assets:		
Equity in pooled cash and cash equivalents	\$32,073	\$723,514
Investments (Stock)	15,452	15,452
Total assets	<u>47,525</u>	<u>738,966</u>
Net assets:		
Held in trust for scholarships	47,525	
Net cash assets available to pool participants		738,966
Total net cash assets	<u>\$47,525</u>	<u>\$738,966</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Private Purpose Trust	Investment Trust
Additions:		
Interest	\$5,934	\$10,359
Gifts and contributions	2,900	
Capital transactions		193,994
Total additions	8,834	204,353
Deductions:		
Distributions to participants		10,359
Scholarships awarded	7,950	
Total deductions	7,950	10,359
Change in net assets	884	193,994
Net assets at beginning of year	46,641	544,972
Net assets at end of year	\$47,525	\$738,966

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. DESCRIPTION OF THE ENTITY

The Shelby County Educational Service Center (the "Center") is a political subdivision of the State of Ohio. It is the successor to the former Shelby County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On July 1, 1995, the Shelby County Board of Education formally adopted these changes and became henceforth the "Governing Board of the Shelby County Educational Service Center".

The Center is located at 129 East Court Street, Sidney, in offices provided by the Shelby County Commissioners, as provided by Ohio Revised Code 3319.19.

The Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The Center is staffed by 57 non-certified and 40 certified employees to provide services to approximately 4,839 students in seven local districts throughout the County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these modified cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

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

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

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Jointly Governed Organizations

Western Ohio Computer Organization (WOCO) - WOCO is a jointly governed organization composed of 29 member school districts. It 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 districts. Each of the governments of these schools supports WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. WOCO is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any participating school district is limited to its representation on the board. In accordance with GASB Statement No. 14, the Center does not have an equity interest in WOCO as the residual interest in the net resources of an organization upon dissolution is not equivalent to an equity interest.

In the case of WOCO, the Center serves as fiscal agent and custodian but is not accountable; therefore the operations of WOCO have been excluded from the Center's financial statements but the funds held on behalf of WOCO by the Center are included in an investment trust fund.

Southwestern Ohio Educational Purchasing Cooperative (SOEPC) - The SOEPC is a purchasing cooperative made up of nearly 126 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Kim Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Shelby County Schools Consortium - The Shelby County Schools Consortium is a group insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick, dental, and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Medical Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district and the Educational Service Center.

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen member committee consisting of various GRP representatives that are elected by general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

As required by Ohio Administrative Code Section 117-2-03(B), the Center prepared and filed its annual financial report with the Auditor of State in accordance with generally accepted accounting principles. However, the Center chooses to prepare (for audit procedures) its financial statements and notes in accordance with the modified cash basis of accounting.

The Center's financial statements are prepared using the modified cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursement basis. The Center recognizes revenues when received in cash rather than when earned and recognizes expenditures when paid rather than when a liability is incurred.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenue (such as accounts receivable and revenue billed or provided serves not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received, but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

C. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Center has no proprietary funds.

1. Governmental Funds

Governmental funds are those through which most governmental functions of the Center are financed. Governmental fund reporting focuses on the sources, uses and balances of the current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Center's major governmental funds:

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

Alternative school - The alternative school fund is used to account for alternative educational programs for existing and new at-risk and delinquent youth.

Miscellaneous federal grants - The miscellaneous federal grants fund is used to account for various monies received from the federal government.

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has a private-purpose trust which accounts for scholarship programs for students. The investment trust fund is used to account for monies held on behalf of Western Ohio Computer Organization (WOCO) for which the Center is fiscal agent and to account for a stock bequest benefiting Sidney City School District.

D. Basis of Presentation

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

- 2. Fund Financial Statements** – The Center segregates transactions related to certain Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Center at a more detailed level. 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.

E. Budgetary Process

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In fiscal year 2004, the Center requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated resources. The Center's Board adopts an annual appropriation resolution, which is the Board's, authorization to spend resources and sets annual limits on expenditures plus encumbrances 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 and the major special revenue funds have been presented as supplementary information to the basic financial statements.

F. Cash and Investments

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

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts, respectively.

During fiscal year 2010, investments were limited to nonnegotiable certificates of deposit, common stock (see below), and a U.S. Government money market. Non-participating investment contracts such as certificates of deposit are reported at cost.

While common stock is not an allowable investment according to Ohio statute, the Center has been endowed with a gift of stock for its private-purpose trust fund. A portion of this stock is due to the Sidney City School District and is reported as an investment trust fund (See Note 4). No public funds were used to acquire the stock. The stock is reported at cost which is based on the initial acquisition prices.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless the Center has adopted a resolution authorizing interest to be credited to specific funds. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$5,976, which includes \$3,378 assigned from other Center funds.

G. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the modified cash basis of accounting. Depreciation has not been reported for any capital assets.

H. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the modified cash basis of accounting.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursements for employer contributions to cost sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for post retirement health care benefits.

J. Long-Term Obligations

Capital lease obligations are not recognized as a liability in the financial statements under the modified cash basis of accounting. The Center is not permitted to obtain debt beyond capital lease obligations.

K. Fund Balance Reserves

The Center reserves those portions of fund balances which are legally segregated for a specific future use. Unreserved fund balances indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

L. Net Cash Assets

Net cash assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The Center first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash assets are available.

M. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 disbursements to the funds that initially paid for them are not presented on the basic financial statements.

3. DEPOSITS AND INVESTMENTS

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

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

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

3. DEPOSITS AND INVESTMENTS (Continued)

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

A. Cash on Hand

At fiscal year end, the Center had \$75 in undeposited cash on hand which is included on the financial statements as part of "equity in pooled cash and cash equivalents".

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all Center deposits was \$1,078,584. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$471,676 of the Center's bank balance of \$1,205,684 was exposed to custodial risk as discussed below, while \$734,008 was covered by FDIC.

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

C. Investments

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

Investment type	Carrying Value	Market Value	Investment Maturities	
			6 months or less	Indefinite
Stock	\$30,904	\$ 370,474		\$370,474
U.S. Government money market	803,463	803,463	\$803,463	
Total	<u>\$834,367</u>	<u>\$1,173,937</u>	<u>\$803,463</u>	<u>\$370,474</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Center's investment policy limits investment portfolio maturities to five years or less, except for the stock portfolio which has been invested as required by the trust agreement.

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

3. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk: The Center's U.S. Government money market carries a rating of AAAm by Standard & Poor's. The Center's stocks were rated ranging from AAA to B, Aaa to B1, and AAA to BB- by Standard & Poor's, Moody's Investor Services, and Fitch Ratings, respectively. The Center has no investment policy that would further limit its investment choices.

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

<u>Investment type</u>	<u>Market Value</u>	<u>% to Total</u>
Stock	\$ 370,474	31.56
U.S. Government money market	803,463	68.44
Total	<u>\$1,173,937</u>	<u>100.00</u>

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

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

<u>Cash and investments per note</u>	<u>Carrying Value</u>
Carrying amount of deposits	\$1,078,584
Investments	834,367
Cash on hand	75
Total	<u>\$1,913,026</u>

<u>Cash and investments per statement of net assets</u>	<u>Carrying Value</u>
Governmental activities	\$1,126,535
Private-purpose trust funds	47,525
Investment trust fund	738,966
Total	<u>\$1,913,026</u>

4. INVESTMENT POOL

The Center serves as fiscal agent for WOCO and maintains stock that was bequeathed to the Center and to Sidney City School District. These activities make up the external portion of the investment pool. The Center pools the monies of these activities with the Center's cash for investment purposes. The Center cannot allocate its investments between the internal and external investment pools.

The investment pool is not registered with the Security and Exchange Commission as an investment company. The pool does not issue shares. WOCO is allocated a pro rata share of each investment along with a pro rata share of the interest that it earns. WOCO's share of the investment portfolio is presented in a separate investment trust fund. The Center maintains stock that was bequeathed to the Center and to the Sidney City School District. Each entity is entitled to 50 percent of the stock value. The portion of the stock that is due to the Sidney City School District is reported in a separate investment trust fund. Condensed cash basis financial information for the investment pool follows:

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

4. INVESTMENT POOL (Continued)

**Statement of Net Assets
June 30, 2010**

Assets:	
Equity in Pooled Cash and Cash Equivalents	\$1,882,122
Investments	30,904
Total Assets	1,913,026
Net Assets Held in Trust for Pool Participants:	
Internal Portion	1,174,060
External Portion	738,966
Total Net Assets Held in Trust for Pool Participants	\$1,913,026

**Statement of Changes in Net Assets
For Fiscal Year Ended June 30, 2010**

Additions:	
Capital Transactions	\$ 178,022
Interest	22,273
Total Additions	200,295
Deductions:	
Distributions to Participants	22,273
Total Deductions	22,273
Change in Net Assets	178,022
Net Assets, Beginning of Year	1,735,004
Net Assets, End of Year	\$1,913,026

Deposits and investments of the investment pool mirror those of the Center. There are no differences between the deposits and investments of the Center and those of the investment pool. See Note 3 for the investment pools classifications of deposits and investments by categories of risk as defined in GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

5. INTERFUND TRANSACTIONS

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

Advances from the general fund to:	
Non-major governmental funds	\$11,950
Advances from the non-major governmental funds to:	
General fund	6,419
Total	\$18,369

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

Interfund advances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2010 are reported on the statement of net assets.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

6. CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2010, the Center has entered into capital leases for copiers. The terms of each lease agreement provide an option to purchase the copier. These leases meet the criteria of a capital lease as defined by Statement No. 13 of the FASB, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments are reflected as debt service expenditures in the governmental fund financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments in the 2010 fiscal year totaled \$9,341. This amount is reflected as debt service principal retirement in the general fund and in the alternative schools fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2011	\$14,724
2012	14,723
2013	14,724
2014	14,723
2015	<u>12,032</u>
Total minimum lease payments	70,926
Less amount representing interest	<u>(12,229)</u>
Total	<u>\$58,697</u>

7. RISK MANAGEMENT

A. Comprehensive and Employee Health

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center has 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 Center to the commercial company. The Center continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in coverage.

B. Workers' Compensation

For fiscal year 2010, the Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The Plan is intended to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members are calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the GRP.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

8. PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$227,541, \$155,458 and \$147,400, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

8. PENSION PLANS (Continued)

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

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

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$253,774, \$224,654 and \$210,505, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

C. Social Security System

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

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

9. POSTEMPLOYMENT BENEFITS (Continued)

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

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

The Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$34,067, \$103,608 and \$97,067, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$13,531, \$12,827 and \$10,620, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$19,521, \$17,281 and \$16,193, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

10. CONTINGENCIES

Grants

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

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**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Earnings on investments	\$10,000	\$6,000	\$5,976	(\$24)
Contract services	3,198,252	3,136,537	3,147,062	10,525
Other local revenues	32,819	37,190	39,450	2,260
Intergovernmental - intermediate	2,000	2,000	1,336	(664)
Intergovernmental - state	382,395	380,840	380,844	4
Total budgetary basis receipts	<u>3,625,466</u>	<u>3,562,567</u>	<u>3,574,668</u>	<u>12,101</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	33,875	53,875	19,018	34,857
Special	1,456,565	1,456,565	1,406,419	50,146
Support Services:				
Pupil	1,046,340	1,023,880	1,003,818	20,062
Instructional staff	646,209	644,255	603,583	40,672
Board of education	75,270	75,270	40,059	35,211
Administration	295,560	295,560	273,351	22,209
Fiscal	192,200	192,200	172,890	19,310
Business	29,450	29,450	13,267	16,183
Operations and maintenance	11,600	11,600	8	11,592
Pupil transportation	1,352	1,306	837	469
Central	187,220	187,220	159,753	27,467
Total budgetary basis disbursements	<u>3,975,641</u>	<u>3,971,181</u>	<u>3,693,003</u>	<u>278,178</u>
Excess of budgetary basis receipts over (under) budgetary basis disbursements	<u>(350,175)</u>	<u>(408,614)</u>	<u>(118,335)</u>	<u>290,279</u>
Other financing sources (uses):				
Advances in	6,419	6,419	6,419	
Advances (out)	(100,000)	(100,000)	(11,950)	88,050
Total other financing sources (uses)	<u>(93,581)</u>	<u>(93,581)</u>	<u>(5,531)</u>	<u>88,050</u>
Net change in fund balance	(443,756)	(502,195)	(123,866)	378,329
Fund balance at beginning of year	793,298	793,298	793,298	
Prior year encumbrances appropriated	33,854	33,854	33,854	
Fund balance at end of year	<u>\$383,396</u>	<u>\$324,957</u>	<u>\$703,286</u>	<u>\$378,329</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**BUDGETARY COMPARISON SCHEDULE
ALTERNATIVE SCHOOLS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Budgetary basis receipts:				
From local sources:				
Other local revenues	\$7,221	\$5,698	\$5,753	\$55
Intergovernmental - intermediate	622,526	491,201	495,965	4,764
Total budgetary basis receipts	<u>629,747</u>	<u>496,899</u>	<u>501,718</u>	<u>4,819</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	518,951	419,982	321,728	98,254
Support Services:				
Instructional staff	80,896	65,468	50,157	15,311
Administration	117,300	94,929	72,727	22,202
Total budgetary basis disbursements	<u>717,147</u>	<u>580,379</u>	<u>444,612</u>	<u>135,767</u>
Net change in fund balance	(87,400)	(83,480)	57,106	140,586
Fund balance at beginning of year	223,146	223,146	223,146	
Prior year encumbrances appropriated	2,785	2,785	2,785	
Fund balance at end of year	<u>\$138,531</u>	<u>\$142,451</u>	<u>\$283,037</u>	<u>\$140,586</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**BUDGETARY COMPARISON SCHEDULE
MISCELLANEOUS FEDERAL GRANTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Budgetary basis receipts:				
Intergovernmental - federal	\$1,029,494	\$1,042,990	\$950,579	(\$92,411)
Total budgetary basis receipts	<u>1,029,494</u>	<u>1,042,990</u>	<u>950,579</u>	<u>(92,411)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	168,038	168,527	159,161	9,366
Support Services:				
Pupil	249,713	250,438	236,520	13,918
Instructional staff	567,798	569,445	537,799	31,646
Administration	47,408	47,545	44,903	2,642
Pupil transportation	371	372	351	21
Total budgetary basis disbursements	<u>1,033,328</u>	<u>1,036,327</u>	<u>978,734</u>	<u>57,593</u>
Net change in fund balance	(3,834)	6,663	(28,155)	(34,818)
Fund balance (deficit) at beginning of year	(25,247)	(25,247)	(25,247)	
Prior year encumbrances appropriated	29,081	29,081	29,081	
Fund balance (deficit) at end of year	<u>\$0</u>	<u>\$10,497</u>	<u>(\$24,321)</u>	<u>(\$34,818)</u>

See accompanying notes to the basic financial statements.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. BUDGETARY PROCESS

The Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Center Board does follow the budgetary process for control purposes.

The Center's Governing Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The Center Governing 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 Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

2. BUDGETARY BASIS OF ACCOUNTING

While the Center is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The budgetary comparison schedule presented for the general fund and the alternative school fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund balance (cash).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund and alternative school fund:

Net Change in Fund Cash Balance			
	General Fund	Alternative School Fund	Miscellaneous Federal Grants Fund
Cash basis	(\$ 69,614)	\$60,846	\$11,722
Adjustment for encumbrances	(54,252)	(3,740)	(39,877)
Budget basis	(\$123,866)	\$57,106	(\$28,155)

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

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

Financial Highlights

Key financial highlights for 2009 are as follows:

- In total, net cash assets of governmental activities increased \$126,922 which represents a 12.49% increase from 2008.
- General cash receipts accounted for \$438,501 or 8.96% of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$4,454,501 or 91.04% of total governmental activities cash receipts of \$4,893,002.
- The Center had \$4,766,080 in cash disbursements related to governmental activities; \$4,454,501 of these cash disbursements were offset by program specific charges for services and grants and contributions. General cash receipts supporting governmental activities (primarily unrestricted grants and entitlements) of \$438,501 were adequate to provide for these programs.
- The Center's major governmental funds are the general fund and alternative school fund. The general fund had \$3,543,324 in cash receipts and other financing sources and \$3,511,595 in cash disbursements and other financing uses. During fiscal year 2009, the general fund's fund cash balance increased \$31,729 from \$795,423 to \$827,152.
- The alternative school fund had \$480,085 in cash receipts and \$404,459 in cash disbursements. During fiscal year 2009, the alternative school fund's fund balance increased \$75,626 from \$150,305 to \$225,931.

Using these Cash Basis Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Center's modified cash basis of accounting.

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Reporting the Center as a Whole

Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all cash basis financial transactions and asks the question, "How did we do financially during 2009?" The statement of net assets – modified cash basis and the statement of activities – modified cash basis answer this question. These statements include *only net assets* using the *modified cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

These two statements report the Center's *net cash assets* and changes in those assets on a modified cash basis. This change in net cash assets is important because it tells the reader that, for the Center as a whole, the *modified cash basis financial position* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Center's required educational programs and other factors.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

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

The Center's statement of net assets – modified cash basis and statement of activities – modified cash basis can be found on pages 48-49 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 42. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's major governmental funds are the general fund and alternative school fund.

Governmental Funds

All of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund financial statements provide a detailed view of the Center's general government operations and the basic services it provides.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Governmental fund information helps you determine whether there are more or fewer modified cash basis financial resources that can be spent in the near future to finance educational programs. Since the Center is reporting on the modified cash basis of accounting, there are no differences in the net assets and fund cash balances or changes in net assets and changes in fund balances. Therefore, no reconciliation is necessary between such financial statements.

However, differences will be apparent when comparing gross revenues and expenses on the fund financial statements to the statement of activities – modified cash basis due to advances between governmental funds being eliminated for reporting in the statement of activities – modified cash basis. The governmental fund statements can be found on pages 47-48 of this report.

Reporting the Center's Fiduciary Responsibilities

The Center is the trustee, or fiduciary, for scholarship programs. This activity is presented as a private-purpose trust fund. The Center also reports the external portion of monies invested on behalf of the Western Ohio Computer Organization and for Sidney City Schools, as its fiscal agent, in a separate investment trust fund. All of the Center's fiduciary activities are reported in separate statements of fiduciary net assets – modified cash basis and changes in fiduciary net assets – modified cash basis on pages 49 and 50. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 51-65 of this report.

The Center as a Whole

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

The table on the next page provides a summary of the Center's net cash assets for 2009. A comparative analysis between 2009 and 2008 is also shown.

	Net Cash Assets	
	Governmental Activities 2009	Governmental Activities 2008
Assets:		
Equity in pooled cash and cash equivalents	\$1,143,391	\$1,016,469
Total assets	1,143,391	1,016,469
Net Cash Assets:		
Restricted	316,239	221,046
Unrestricted	827,152	795,423
Total net cash assets	\$1,143,391	\$1,016,469

Over time, net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the Center's total net cash assets were \$1,143,391.

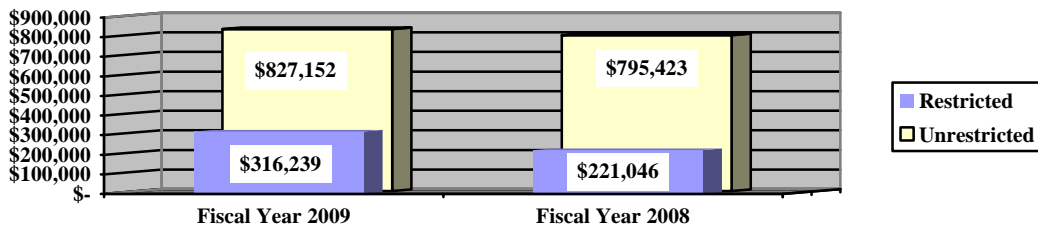
**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

A portion of the Center's net cash assets, \$316,239 represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net cash assets of \$827,152 may be used to meet the Center's ongoing obligations to students, school districts, and creditors.

The graph below presents the Center's governmental activities restricted and unrestricted net assets for fiscal year 2009 and 2008.

Governmental Activities - Restricted and Unrestricted Net Cash Assets



The table below shows the change in net cash assets for fiscal year 2009. A comparative analysis between 2009 and 2008 is also shown.

	Change in Net Cash Assets	
	Governmental Activities 2009	Governmental Activities 2008
Cash Receipts:		
Program cash receipts:		
Charges for services and sales	\$3,098,765	\$2,693,652
Operating grants and contributions	1,355,736	1,161,176
General cash receipts:		
Grants and entitlements	389,131	345,224
Investment earnings	15,834	43,118
Other	33,536	45,111
Total cash receipts	<u>4,893,002</u>	<u>4,288,281</u>
Cash Disbursements:		
Program expenses:		
Instruction:		
Regular	555,507	401,306
Special	1,271,816	1,036,481
Support services:		
Pupil	1,172,075	1,048,310
Instructional staff	978,465	820,257
Board of education	26,558	26,301
Administration	416,533	596,095
Fiscal	169,398	138,831
Business	394	223
Operations and maintenance	6,423	6,068
Pupil transportation	6,293	7,672
Central	150,939	145,060

(Continued)

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

	Change in Net Cash Assets	
	Governmental Activities 2009	Governmental Activities 2008
Cash Disbursements:		
Debt Service:		
Principal retirement	9,044	7,749
Interest and fiscal charges	2,635	3,930
Total Cash Disbursements	4,766,080	4,238,283
Change in net cash assets	126,922	49,998
Net assets at beginning of year	1,016,469	966,471
Net assets at end of year	<u>\$1,143,391</u>	<u>\$1,016,469</u>

Governmental Activities

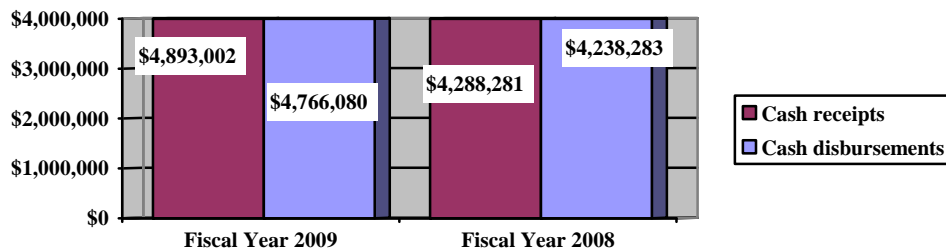
Net assets of the Center's governmental activities increased \$126,922. Total governmental cash disbursements of \$4,766,080 were offset by program cash receipts of \$4,454,501 and general cash receipts of \$438,501. Program cash receipts supported 93.46% of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 63.33% of total governmental cash receipts.

The largest cash disbursement of the Center is for support services. Support services cash disbursements totaled \$2,927,078 or 61.41% of total governmental cash disbursements for fiscal 2009.

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

Governmental Activities - Cash Receipts and Disbursements



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. A comparative analysis between 2009 and 2008 is also shown.

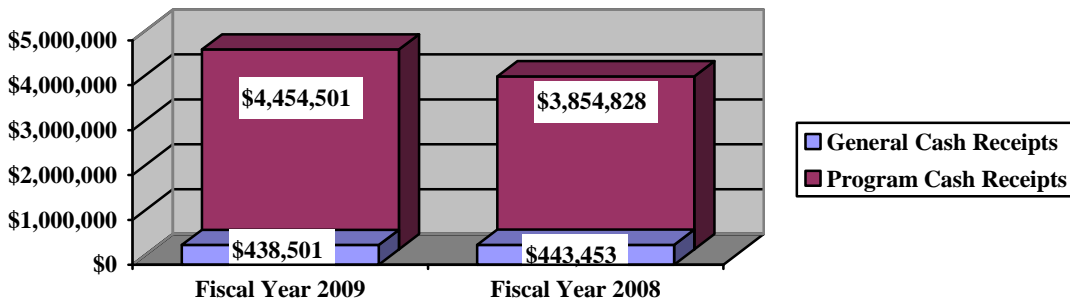
**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

	Governmental Activities			
	Total Cost of Services 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
Program cash disbursements:				
Instruction:				
Regular	\$ 555,507	(\$ 40,025)	\$ 401,306	\$ 39,503
Special	1,271,816	140,953	1,036,481	99,251
Support services:				
Pupil	1,172,075	107,785	1,048,310	70,000
Instructional staff	978,465	6,023	820,257	70,831
Board of education	26,558	26,558	26,301	26,301
Administration	416,533	23,151	596,095	33,589
Fiscal	169,398	18,841	138,831	13,294
Business	394	394	223	223
Operations and maintenance	6,423	4,417	6,068	4,619
Pupil transportation	6,293	(4,985)	7,672	203
Central	150,939	16,788	145,060	13,962
Debt service:				
Principal retirement	9,044	9,044	7,749	7,749
Interest and fiscal charges	2,635	2,635	3,930	3,930
Total cash disbursements	\$4,766,080	\$311,579	\$4,238,283	\$383,455

The graph below presents the District's governmental activities cash receipts for fiscal year 2009 and 2008.

Governmental Activities - General and Program Cash Receipts



The Center's Funds

The Center's governmental funds reported a combined fund cash balance of \$1,143,391, which is higher than last year's total of \$1,016,469. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2009 and 2008.

	Fund Cash Balance June 30, 2009	Fund Cash Balance June 30, 2008	Increase	Percentage Change
General	\$ 827,152	\$ 795,423	\$ 31,729	3.99 %
Alternative School	225,931	150,305	75,626	50.32 %
Other Governmental	90,308	70,741	19,567	27.66 %
Total	\$1,143,391	\$1,016,469	\$126,922	12.49 %

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

General Fund

The Center's general fund cash balance increased \$31,729. Cash receipts and other financing sources exceeded cash disbursements and other financing uses for fiscal year 2009 by \$31,729. The table that follows assists in illustrating the cash financial activities of the general fund.

	<u>2009 Amount</u>	<u>2008 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Cash Receipts:				
Contract services	\$3,085,122	\$2,674,080	\$411,042	15.37 %
Earnings on investments	15,785	43,075	(27,290)	(63.35) %
Other local revenues	34,036	45,111	(11,075)	(24.55) %
Intergovernmental	389,131	345,224	43,907	12.72 %
Total	<u>3,524,074</u>	<u>3,107,490</u>	<u>416,584</u>	13.41 %
Cash Disbursements:				
Instruction	1,299,573	1,037,562	262,011	25.25 %
Support services	2,194,490	1,952,328	242,162	12.40 %
Debt service	11,113	11,679	(566)	(4.85) %
Total	<u>\$3,505,176</u>	<u>\$3,001,569</u>	<u>\$503,607</u>	16.78 %

The most significant increase in cash receipts occurred in contract service revenue receipts. The increase in contract service revenue receipts was due to an increase in special education services provided, the Center offered a contained Autism unit during the 2009 fiscal year for the first time. The most significant decreases in cash receipts occurred in intergovernmental revenue and earnings on investments. The large decrease in intergovernmental revenue and support services cash disbursements is due to the reclassification of a special cost center previously reported in the general fund, which was reported in a nonmajor special revenue fund during fiscal year 2009. The decrease in earnings on investments was due primarily to the decrease in interest rates by the Federal Reserve. The increase in cash disbursements in instruction was due primarily to additional staff members for the Autism unit, as well as the increase in employee salaries and insurance.

Alternative School Fund

The alternative school fund had \$480,085 in cash receipts and \$404,459 in cash disbursements. During fiscal year 2009, the alternative school fund's fund cash balance increased \$75,626 from \$150,305 to \$225,931.

Capital Assets and Debt Administration

Capital Assets

The Center does not record capital assets in the accompanying modified cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt Administration

At June 30, 2009, the Center had \$27,988 in capital lease obligations. Of this total, \$9,794 is due within one year and \$18,194 is due within greater than one year.

The Center is not permitted to issue debt. See Note 7 to the modified cash basis financial statements for additional information on the Center's capital leases.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Current Financial Related Activities

Overall, the Center is strong financially. As the preceding information shows, the Center relies heavily on contracts with local and city districts in Shelby County, State foundation revenue and grants. Contracts with Shelby County districts are expected to increase in fiscal year 2010 due to a loss of grant and local governmental funding of some programs. Continuing contracts, along with the Center's cash balance will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2010. However, the future financial stability of the Center is not without challenges.

The first challenge is that the Center will not regain the prior year loss of \$32,000 in State funding, which was due to the Governor's mandated budget cuts in 2008. Additionally, the Center will be affected by the decline in enrollment in Shelby County over the past few years and the projected decline in the future. The Center receives funding based on the ADM of Shelby County school districts, so the continued decline will directly impact State funding. The Center constantly strives to provide more services in the most cost efficient manner.

Second, the Center has been informed of extensive budget cuts in local and State grant funding for the future year. To date, the Center has been notified that of \$416,000 of prior year funding will not be received during fiscal year 2010 due to budget cuts from funding sources. These cuts affect the Center's Alternative Education and Opportunity School programs, as well as the Juvenile Court Liaison position, Entry Year and Dual Enrollment programs. While the Center has applied to other sources for funding, if it is not granted, the Shelby County districts will have to increase their share of funding to continue the programs.

The Center's systems of budgeting and internal controls are well regarded. All of the Center's financial abilities will be needed to meet the financial challenges of the future.

With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality products and services to the districts in the future.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Cathy Doseck, Treasurer, Shelby County Educational Service Center, 129 E. Court St., Annex Building, Sidney, Ohio 45365.

EDUCATIONAL SERVICE CENTER
SHELBY COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2009

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$1,143,391
Total assets	<u>1,143,391</u>
Net cash assets:	
Restricted for:	
Public school support	8,518
Locally funded programs	52,014
State funded programs	25,942
Federally funded programs	3,834
Other purposes	225,931
Unrestricted	827,152
Total net cash assets	<u><u>\$1,143,391</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Cash Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements) Receipts and Changes in Net Cash Assets Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction:				
Regular	\$555,507	\$1,438	\$594,094	\$40,025
Special	1,271,816	1,130,863		(140,953)
Support services:				
Pupil	1,172,075	876,493	187,797	(107,785)
Instructional staff	978,465	542,731	429,711	(6,023)
Board of education	26,558			(26,558)
Administration	416,533	256,073	137,309	(23,151)
Fiscal	169,398	150,557		(18,841)
Business	394			(394)
Operations and maintenance	6,423		2,006	(4,417)
Pupil transportation	6,293	6,459	4,819	4,985
Central	150,939	134,151		(16,788)
Debt service:				
Principal retirement	9,044			(9,044)
Interest and fiscal charges	2,635			(2,635)
Total governmental activities	<u>4,766,080</u>	<u>3,098,765</u>	<u>1,355,736</u>	<u>(311,579)</u>
General Cash Receipts:				
Grants and entitlements not restricted to specific programs				389,131
Investment receipts				15,834
Miscellaneous				33,536
Total general cash receipts				<u>438,501</u>
Change in net cash assets				126,922
Net cash assets at beginning of year				<u>1,016,469</u>
Net cash assets at end of year				<u><u>\$1,143,391</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	<u>General</u>	<u>Alternative School</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$827,152	\$225,931	\$90,308	\$1,143,391
Total assets	<u>827,152</u>	<u>225,931</u>	<u>90,308</u>	<u>1,143,391</u>
Fund cash balances:				
Reserved for encumbrances	33,854	2,785	104,807	141,446
Unreserved, undesignated (deficit), reported in:				
General fund	793,298			793,298
Special revenue funds		223,146	(14,499)	208,647
Total fund balances	<u>\$827,152</u>	<u>\$225,931</u>	<u>\$90,308</u>	<u>\$1,143,391</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>General</u>	<u>Alternative School</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:				
From local sources:				
Contract service revenue	\$3,085,122		\$8,292	\$3,093,414
Earnings on investments	15,785		49	15,834
Extracurricular			4,851	4,851
Other local revenues	34,036	\$310	6,719	41,065
Intergovernmental - intermediate	1,200	479,775	237,542	718,517
Intergovernmental - state	387,931		380,193	768,124
Intergovernmental - federal			251,197	251,197
Total cash receipts	<u>3,524,074</u>	<u>480,085</u>	<u>888,843</u>	<u>4,893,002</u>
Cash disbursements:				
Instruction:				
Regular	27,757	291,765	235,985	555,507
Special	1,271,816			1,271,816
Support services:				
Pupil	980,334	66	191,675	1,172,075
Instructional staff	578,520	45,652	354,293	978,465
Board of education	26,558			26,558
Administration	282,198	64,682	69,653	416,533
Fiscal	169,398			169,398
Business	394			394
Operations and maintenance	4,735	1,688		6,423
Pupil transportation	1,414	40	4,839	6,293
Central	150,939			150,939
Debt service:				
Principal retirement	8,560	484		9,044
Interest and fiscal charges	2,553	82		2,635
Total cash disbursements	<u>3,505,176</u>	<u>404,459</u>	<u>856,445</u>	<u>4,766,080</u>
Excess of cash receipts over cash disbursements	<u>18,898</u>	<u>75,626</u>	<u>32,398</u>	<u>126,922</u>
Other financing sources (uses):				
Advances in	19,250		6,419	25,669
Advances out	(6,419)		(19,250)	(25,669)
Total other financing sources (uses)	<u>12,831</u>		<u>(12,831)</u>	
Net change in fund cash balances	31,729	75,626	19,567	126,922
Fund cash balances at beginning of year	795,423	150,305	70,741	1,016,469
Fund cash balances at end of year	<u>\$827,152</u>	<u>\$225,931</u>	<u>\$90,308</u>	<u>\$1,143,391</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2009**

	Private - Purpose Trust	Investment Trust
Assets:		
Equity in pooled cash and cash equivalents	\$31,189	\$529,520
Investments (Stock)	15,452	15,452
Total assets	46,641	544,972
Net cash assets:		
Held in trust for scholarships	46,641	
Net cash assets available to pool participants		544,972
Total net cash assets	\$46,641	\$544,972

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Private - Purpose Trust	Investment Trust
Additions:		
Interest	\$6,184	\$15,281
Capital transactions		80,708
Gifts and contributions	3,200	
Total additions	9,384	95,989
Deductions:		
Distributions to participants		15,281
Scholarships awarded	6,450	
Total deductions	6,450	15,281
Change in net cash assets	2,934	80,708
Net cash assets at beginning of year	43,707	464,264
Net cash assets at end of year	\$46,641	\$544,972

See accompanying notes to the basic financial statements.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

1. DESCRIPTION OF THE ENTITY

The Shelby County Educational Service Center (the "Center") is a political subdivision of the State of Ohio. It is the successor to the former Shelby County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On July 1, 1995, the Shelby County Board of Education formally adopted these changes and became henceforth the "Governing Board of the Shelby County Educational Service Center".

The Center is located at 129 East Court Street, Sidney, in offices provided by the Shelby County Commissioners, as provided by Ohio Revised Code 3319.19.

The Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The Center is staffed by 59 non-certified and 36 certified employees to provide services to approximately 4,876 students in seven local districts throughout the County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2B, these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these modified cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

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

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Jointly Governed Organizations

Western Ohio Computer Organization (WOCO) - WOCO is a jointly governed organization composed of 29 member school districts. It 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 districts. Each of the governments of these schools supports WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. WOCO is governed by a board of directors consisting of superintendents of the members school districts. The degree of control exercised by any participating school district is limited to its representation on the board. In accordance with GASB Statement No. 14, the Center does not have an equity interest in WOCO as the residual interest in the net resources of an organization upon dissolution is not equivalent to an equity interest.

In the case of WOCO, the Center serves as fiscal agent and custodian but is not accountable; therefore the operations of WOCO have been excluded from the Center's financial statements but the funds held on behalf of WOCO by the Center are included in an investment trust fund.

Southwestern Ohio Educational Purchasing Cooperative (SOEPC) - The SOEPC is a purchasing cooperative made up of nearly 126 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Kim Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Shelby County Schools Consortium - The Shelby County Schools Consortium is a group insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick, dental, and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Medical Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district and the Educational Service Center.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Public Entity Risk Pool

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen member committee consisting of various GRP representatives that are elected by general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Basis of Accounting

As required by Ohio Administrative Code Section 117-2-03(B), the Center prepared and filed its annual financial report with the Auditor of State in accordance with generally accepted accounting principles. However, the Center chooses to prepare (for audit procedures) its financial statements and notes in accordance with the modified cash basis of accounting.

The Center's financial statements are prepared using the modified cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursement basis. The Center recognizes revenues when received in cash rather than when earned and recognizes expenditures when paid rather than when a liability is incurred.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenue (such as accounts receivable and revenue billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

C. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Center has no proprietary funds.

1. Governmental Funds

Governmental funds are those through which most governmental functions of the Center are financed. Governmental fund reporting focuses on the sources, uses and balances of the current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Center's major governmental funds:

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Alternative school - The alternative school fund is used to account for alternative educational programs for existing and new at-risk and delinquent youth.

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

2. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has a private-purpose trust which accounts for scholarship programs for students. The investment trust fund is used to account for monies held on behalf of Western Ohio Computer Organization (WOCO) for which the Center is fiscal agent and to account for a stock bequest benefiting Sidney City School District.

D. Basis of Presentation

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

2. Fund Financial Statements

The Center segregates transactions related to certain Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Center at a more detailed level. 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.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

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

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

F. Cash and Investments

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

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts, respectively.

During fiscal year 2009, investments were limited to nonnegotiable certificates of deposit, common stock (see below), and a US Government money market. Non--participating investment contracts such as certificates of deposit are reported at cost.

While common stock is not an allowable investment according to Ohio statute, the Center has been endowed with a gift of stock for its private-purpose trust fund. A portion of this stock is due to the Sidney City School District and is reported as an investment trust fund (see Note 5). No public funds were used to acquire the stock. The stock is reported at cost which is based on the initial acquisition prices.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless the Center has adopted a resolution authorizing interest to be credited to specific funds. Interest revenue credited to the general fund during fiscal year 2009 amounted to \$15,785, which includes \$7,906 assigned from other Center funds.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the modified cash basis of accounting. Depreciation has not been reported for any capital assets.

H. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the modified cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursements for employer contributions to cost sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for post retirement health care benefits.

J. Long-Term Obligations

Capital lease obligations are not recognized as a liability in the financial statements under the modified cash basis of accounting. The Center is not permitted to obtain debt beyond capital lease obligations.

K. Fund Balance Reserves

The Center reserves those portions of fund balances which are legally segregated for a specific future use. Unreserved fund balances indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

L. Net Cash Assets

Net cash assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The Center first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash assets are available.

M. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 disbursements to the funds that initially paid for them are not presented on the basic financial statements.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

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

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

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

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

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

4. DEPOSITS AND INVESTMENTS

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

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

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

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

A. Cash on Hand

At fiscal year end, the Center had \$75 in undeposited cash on hand which is included on the financial statements as part of "equity in pooled cash and cash equivalents."

B. Deposits with Financial Institutions

At June 30, 2009, the carrying amount of all Center deposits was \$1,309,759. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2009, \$663,183 of the Center's bank balance of \$1,408,064 was exposed to custodial risk as discussed below, while \$744,881 was covered by FDIC.

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

C. Investments

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

<u>Investment type</u>	<u>Carrying Value</u>	<u>Market Value</u>	<u>Investment Maturities</u>	
			<u>6 months or less</u>	<u>Indefinite</u>
Stock	\$ 30,904	\$361,163		\$361,163
US government money market	394,266	394,266	\$394,266	
	<u>\$425,170</u>	<u>\$755,429</u>	<u>\$394,266</u>	<u>\$ 361,163</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Center's investment policy limits investment portfolio maturities to five years or less, except for the stock portfolio which has been invested as required by the trust agreement.

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

Credit Risk: The Center's US Government money market carries a rating of AAAM by Standard & Poor's. The Center's stocks were rated ranging from AAA to BB-, Aaa to Ba3, and AAA to BB- by Standard & Poor's, Moody's Investor Services, and Fitch Ratings, respectively. The Center has no investment policy that would further limit its investment choices.

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Investment type	Market Value	% to Total
Stock	\$361,163	47.81%
US government money market	94,266	52.19%
	\$755,429	100.00%

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

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

Cash per note	Carrying Value
Carrying amount of deposits	\$1,309,759
Investments	425,170
Cash on hand	75
Total	\$1,735,004

Cash per statement of net assets	Carrying Value
Governmental activities	\$1,143,391
Private-purpose trust funds	46,641
Investment trust fund	544,972
Total	\$1,735,004

5. INVESTMENT POOL

The Center serves as fiscal agent for WOCO and maintains stock that was bequeathed to the Center and to Sidney City School District. These activities make up the external portion of the investment pool. The Center pools the monies of these activities with the Center's cash for investment purposes. The Center cannot allocate its investments between the internal and external investment pools.

The investment pool is not registered with the Security and Exchange Commission as an investment company. The pool does not issue shares. WOCO is allocated a pro rata share of each investment along with a pro rata share of the interest that it earns. WOCO's share of the investment portfolio is presented in a separate investment trust fund. The Center maintains stock that was bequeathed to the Center and to the Sidney City School District. Each entity is entitled to 50 percent of the stock value. The portion of the stock that is due to the Sidney City School District is reported in a separate investment trust fund.

Condensed cash basis financial information for the investment pool follows:

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

5. INVESTMENT POOL (Continued)

Statement of Net Assets June 30, 2009	
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,704,100
Investments	30,904
Total Assets	<u>1,735,004</u>
Net Assets Held in Trust for Pool Participants:	
Internal Portion	1,190,032
External Portion	544,972
Total Net Assets Held in Trust for Pool Participants	<u>\$1,735,004</u>
Statement of Changes in Net Assets For Fiscal Year Ended June 30, 2009	
Additions:	
Capital Transactions	\$ 210,564
Interest	37,299
Total Additions	<u>247,863</u>
Deductions:	
Distributions to Participants	37,299
Total Deductions	37,299
Change in Net Assets	210,564
Net Assets, Beginning of Year	1,524,440
Net Assets, End of Year	<u>\$1,735,004</u>

Deposits and investments of the investment pool mirror those of the Center. There are no differences between the deposits and investments of the Center and those of the investment pool. See Note 4 for the investment pools classifications of deposits and investments by categories of risk as defined in GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

6. INTERFUND TRANSACTIONS

Interfund advances for the year ended June 30, 2009, consisted of the following, as reported on the fund financial statements:

Advances from the general fund to:	
Non-major governmental funds	\$6,419
Advances from the non-major governmental funds to:	
General fund	19,250
Total	<u>\$25,669</u>

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

Interfund advances between governmental funds are eliminated on the government-wide financial statements; therefore, advances are not reported on the statement of activities.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

7. CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the Center has entered into capital leases for copiers. The terms of each lease agreement provide an option to purchase the copier. These leases meet the criteria of a capital lease as defined by Statement No. 13 of the FASB, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments are reflected as debt service expenditures in the governmental fund financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments in the 2009 fiscal year totaled \$9,044. This amount is reflected as debt service principal retirement in the general fund and in the alternative schools fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2010	\$11,679
2011	10,526
2012	9,146
Total minimum lease payments	31,351
Less amount representing interest	(3,363)
Total	<u>\$27,988</u>

8. RISK MANAGEMENT

A. Comprehensive and Employee Health

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center has 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 Center to the commercial company. The Center continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in coverage.

B. Workers' Compensation

For fiscal year 2009, the Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The Plan is intended to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members are calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the GRP.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

9. PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$155,458, \$147,400 and \$148,761, respectively. 100% has been contributed for fiscal years 2009, 2008 and 2007.

B. State Teachers Retirement System of Ohio

The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website 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 member contributions and earned interest matched by STRS Ohio funds times 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

9. PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions to the DB plan for the fiscal years ended June 30, 2009, 2008, and 2007 were \$224,654, \$210,505, and \$206,465, respectively. 100% has been contributed for fiscal years 2009, 2008 and 2007.

C. Social Security System

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

10. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

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 401(h).

For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, this amount was \$35,800.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

10. POSTEMPLOYMENT BENEFITS (Continued)

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

The Center's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$103,608, \$97,067 and \$77,563, respectively. 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$12,827, \$10,620 and \$10,115, respectively. 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

B. State Teachers Retirement System of Ohio

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

Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$17,281, \$16,193 and \$15,882, respectively. 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

11. CONTINGENCIES

Grants

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

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**EDUCATIONAL SERVICE CENTER
SHELBY COU NTY**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Contract services	\$3,105,259	\$3,083,980	\$3,085,122	\$1,142
Earnings on investments	40,000	20,000	15,785	(4,215)
Other local revenues	35,016	36,400	38,414	2,014
Intergovernmental - Intermediate	1,200	1,200	1,200	
Intergovernmental - State	343,480	387,900	387,931	31
Total budgetary basis receipts	<u>3,524,955</u>	<u>3,529,480</u>	<u>3,528,452</u>	<u>(1,028)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular		45,000	30,536	14,464
Special	1,210,110	1,275,400	1,275,240	160
Support services:				
Pupil	1,035,600	1,035,600	980,412	55,188
Instructional staff	656,805	655,747	582,006	73,741
Board of education	65,140	71,710	28,969	42,741
Administration	307,290	307,290	282,616	24,674
Fiscal	177,460	177,460	169,513	7,947
Business	31,600	31,600	10,189	21,411
Operations and maintenance	18,290	18,290	4,735	13,555
Pupil transportation	457	2,200	1,874	326
Central	176,713	176,740	175,719	1,021
Total budgetary basis disbursements	<u>3,679,465</u>	<u>3,797,037</u>	<u>3,541,809</u>	<u>255,228</u>
Excess of budgetary basis receipts over (under) budgetary basis disbursements	<u>(154,510)</u>	<u>(267,557)</u>	<u>(13,357)</u>	<u>254,200</u>
Other financing sources (uses):				
Refund of prior year expenditure	3,000	3,000	2,779	(221)
Refund of prior year receipts		(4,700)	(4,655)	45
Advances in	100,000	100,000	19,250	(80,750)
Advances (out)	(100,000)	(100,000)	(6,419)	93,581
Sale of capital assets		280	277	(3)
Total other financing sources (uses)	<u>3,000</u>	<u>(1,420)</u>	<u>11,232</u>	<u>12,652</u>
Net change in fund balance	(151,510)	(268,977)	(2,125)	266,852
Fund balance at beginning of year	739,107	739,107	739,107	
Prior year encumbrances appropriated	56,316	56,316	56,316	
Fund balance at end of year	<u>\$643,913</u>	<u>\$526,446</u>	<u>\$793,298</u>	<u>\$266,852</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**BUDGETARY COMPARISON SCHEDULE
ALTERNATIVE SCHOOL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Budgetary basis receipts:				
From local sources:				
Other local revenues			\$310	\$310
Intergovernmental - Intermediate	\$441,000	\$441,000	479,775	38,775
Total budgetary basis receipts	<u>441,000</u>	<u>441,000</u>	<u>480,085</u>	<u>39,085</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	326,475	326,475	295,116	31,359
Support services:				
Pupil	66	66	66	
Instructional staff	47,070	47,070	45,652	1,418
Administration	65,175	65,175	64,682	493
Operations and maintenance	2,182	2,182	1,688	494
Pupil transportation	98	98	40	58
Total budgetary basis disbursements	<u>441,066</u>	<u>441,066</u>	<u>407,244</u>	<u>33,822</u>
Net change in fund balance	(66)	(66)	72,841	72,907
Fund balance at beginning of year	149,115	149,115	149,115	
Prior year encumbrances appropriated	1,190	1,190	1,190	
Fund balance at end of year	<u>\$150,239</u>	<u>\$150,239</u>	<u>\$223,146</u>	<u>\$72,907</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

NOTE 1 - BUDGETARY PROCESS

The Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Center Board does follow the budgetary process for control purposes.

The Center's Governing Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The Center Governing 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 Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the Center is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The budgetary comparison schedule presented for the general fund and the alternative school fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund balance (cash).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund and alternative school fund:

Net Change in Fund Cash Balance		
	General Fund	Alternative School Fund
Cash basis	\$31,729	\$75,626
Adjustment for encumbrances	<u>(33,854)</u>	<u>(2,785)</u>
Budget basis	<u>(\$ 2,125)</u>	<u>\$72,841</u>

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**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Expenditures
U.S. Department of Education			
<i>(Direct Aid)</i>			
Fund For the Improvement of Education:			
Elementary and Secondary School Counseling Grant	84.215E	\$359,851	\$350,836
Teaching American History Grant	84.215X	<u>157,405</u>	<u>166,505</u>
Total Fund For the Improvement of Education		<u>517,256</u>	<u>517,341</u>
<i>(Passed through Ohio Department of Education)</i>			
Special Education Cluster:			
Special Education Preschool Grants	84.173	13,072	13,072
ARRA - Special Education -Preschool Grant- Recovery Act	84.392	<u>34,973</u>	<u>34,973</u>
Total Special Education Cluster		<u>48,045</u>	<u>48,045</u>
Twenty First Century Community Learning Centers	84.287	413,000	397,360
School Improvement Grants	84.377A	<u>5,700</u>	<u>5,700</u>
Total U.S. Department of Education		<u>984,001</u>	<u>968,446</u>
Corporation of National and Community Service			
<i>(Passed through Ohio Department of Education)</i>			
Learn and Serve America School and Community Based Programs	94.004	<u>15,000</u>	<u>18,834</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>(Passed Through Ohio Department of Job and Family Services)</i>			
<i>(Passed Through the Shelby County Department of Job and Family Services)</i>			
Temporary Assistance for Needy Families (TANF) State Programs	93.558	<u>20,012</u>	<u>20,012</u>
U.S. DEPARTMENT OF LABOR			
<i>(Passed Through Ohio Department of Job and Family Services):</i>			
<i>(Passed Through the Shelby County Department of Job and Family Services)</i>			
Workforce Investment Act-Youth	17.259	<u>39,437</u>	<u>39,437</u>
Total Federal Financial Assistance		<u>\$1,058,450</u>	<u>\$1,046,729</u>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FEDERAL AWARDS EXPENDITURES ADMINISTERED FOR OTHER GOVERNMENTS

The Center applies for and administers grants on behalf of member school districts. The Center reports these grants on the Schedule of Federal Awards Receipts and Expenditure and they are subject to audit during the Center's annual audit according to the Single Audit Act (A-133). Awards which were reported by the Center which benefit member districts are as follows:

ARRA Special Education – Preschool Grant, Recovery Act FY10

Anna	22.39%	\$0.00	\$7,831
Botkins	9.77%	\$0.00	\$3,418
Fairlawn	12.31%	\$0.00	\$4,304
Fort Loramie	16.47%	\$0.00	\$5,760
Hardin-Houston	18.12%	\$0.00	\$6,336
Jackson Center	11.10%	\$0.00	\$3,881
Russia	9.84%	\$0.00	\$3,442
Total	100.00%	\$0.00	\$34,972

Special Education – Preschool Grants, IDEA FY10

Anna	5.36%	\$0.00	\$1,875
Botkins	4.89%	\$0.00	\$1,711
Fairlawn	3.27%	\$0.00	\$1,143
Fort Loramie	11.09%	\$0.00	\$3,877
Hardin-Houston	4.96%	\$0.00	\$1,733
Jackson Center	4.67%	\$0.00	\$1,634
Russia	3.14%	\$0.00	\$1,099
Total	37.38%	\$0.00	\$13,072



Dave Yost • Auditor of State

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

Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, Ohio 45365

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Educational Service Center, Shelby County, (the Center) as of and for the fiscal years ended June 30, 2010 and June 30, 2009, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 14, 2011, wherein we noted the Center used a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

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

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

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

Dave Yost
Auditor of State

February 14, 2011



Dave Yost • Auditor of State

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

Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, Ohio 45365

To the Board of Education:

Compliance

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

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

In our opinion, the 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 fiscal year ended June 30, 2010.

Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with 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 Center's internal control over compliance.

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**Internal Control Over Compliance
(Continued)**

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 noted a matter involving federal compliance not requiring inclusion in this report, that we reported to the Center's management in a separate letter dated February 14, 2011.

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



Dave Yost
Auditor of State

February 14, 2011

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Twenty First Century Community Learning Centers Grant CFDA#84.287 Fund For The Improvement of Education CFDA#84.215
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2010-001

Material Weakness

The Center did not properly classify various receipts and fund balances on the 2010 financial statements. The 2010 annual report erroneously presented the WOCO D3A2 FY10 fund which overstated the intergovernmental revenue received from the Ohio Department of Education, and the ending fund balance by \$10,497 which resulted in audit adjustments for proper presentation of the financial statements. The adjustments are reflected on the audited financial statements. The Treasurer should review the compiled financial statements for proper posting and use due care in preparation of the annual report to provide for proper and accurate presentation of the Center's financial activity.

Officials' Response:

We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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SHELBY COUNTY EDUCATIONAL SERVICE CENTER

SHELBY 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 8, 2011