



Dave Yost • Auditor of State

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|--|-------------|
| Independent Accountants' Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 11 |
| Statement of Activities..... | 12 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 13 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities | 14 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds..... | 15 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities..... | 16 |
| Statement of Fiduciary Net Assets - Fiduciary Funds..... | 17 |
| Notes to the Basic Financial Statements | 19 |
| Supplemental Information: | |
| Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) – General Fund..... | 42 |
| Budgetary Notes | 43 |
| Federal Awards Receipts and Expenditures Schedule..... | 45 |
| Notes to the Federal Awards Receipts and Expenditures Schedule | 46 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 47 |
| Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 | 49 |
| Schedule of Findings - OMB Circular A-133 § .505..... | 51 |

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INDEPENDENT ACCOUNTANTS' REPORT

South Central Ohio Educational Service Center
Scioto County
411 Court Street
Portsmouth, Ohio 45662

To the Governing Board:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2011, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

March 7, 2011

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

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

Financial Highlights

- In total, net assets decreased \$38,707 which represents a slight decrease from the prior fiscal year. The biggest difference reflected on the Educational Service Center's Statement of Net Assets in relation to the prior fiscal year was related to current assets.
- General revenues accounted for \$1,209,523 of total revenues. Program specific revenues in the form of charges for services, operating grants, and contributions accounted for \$7,487,383 of total revenues of \$8,696,906.
- The School District had \$8,735,613 in expenses related to governmental activities; \$7,487,383 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues (primarily grants and entitlements) of \$1,209,523 were not adequate enough to provide for these programs.

Using the Basic Financial Statements

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

The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's major funds with all other nonmajor funds presented in total in one column. The most significant fund for the South Central Ohio Educational Service Center is the General Fund.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Reporting the Educational Service Center as a Whole

One of the most important questions asked about the Educational Service Center is “How did we do financially during fiscal year 2010?” The Statement of Net Assets and the Statement of Activities, which appear first in the Educational Service Center’s financial statements, report information on the Educational Service Center as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center’s net assets and changes in those assets. The change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Assets and the Statement of Activities, the Educational Service Center has only one kind of activity:

- Governmental Activities – All of the Educational Service Center’s educational programs and services are reported here including instruction and support services, which include operation and maintenance of plant and pupil transportation.

Reporting the Educational Service Center’s Most Significant Funds

Fund Financial Statements

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

Governmental Funds – Most of the Educational Service 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 fiscal year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statements of Activities) and governmental funds is reconciled in the financial statements.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Fiduciary Funds – The Educational Service Center's fiduciary funds are agency funds. All of the Educational Service Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the Educational Service Center's other financial statements because the Educational Service Center cannot use these assets to finance its operations. Fiduciary funds use the accrual basis of accounting.

The Educational Service Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center's net assets for fiscal years 2010 and 2009:

Table 1
Net Assets

| | Governmental Activities | | Increase (Decrease) |
|---|-------------------------|-------------------------|--------------------------|
| | 2010 | 2009 | |
| Assets | | | |
| Current Assets | \$1,755,011 | \$1,607,963 | \$147,048 |
| Capital Assets, Net | 150,582 | 290,705 | (140,123) |
| Total Assets | <u>1,905,593</u> | <u>1,898,668</u> | <u>6,925</u> |
| Liabilities | | | |
| Other Liabilities | 894,225 | 826,073 | 68,152 |
| Long-Term Liabilities | 375,184 | 397,704 | (22,520) |
| Total Liabilities | <u>1,269,409</u> | <u>1,223,777</u> | <u>45,632</u> |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 108,276 | 205,605 | (97,329) |
| Restricted | 221,852 | 300,544 | (78,692) |
| Unrestricted | 306,056 | 168,742 | 137,314 |
| Total Net Assets | <u><u>\$636,184</u></u> | <u><u>\$674,891</u></u> | <u><u>(\$38,707)</u></u> |

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Total assets increased \$6,925 when compared to the prior fiscal year. A significant increase of \$224,217 occurred within equity in pooled cash and cash equivalents as a result of the Educational Service Center providing additional professional development services to local school districts, as well as providing occupational therapy services to Wellston City School District. While charging local school districts for such services, the Educational Service Center would have incurred minimal expenses relating to the additional services because it already employs individuals who are providing the services. Intergovernmental receivable decreased significantly from the prior fiscal year as a result of the completion of a grant award from fiscal year 2009. This grant was not awarded in fiscal year 2010.

Capital Assets, Net decreased \$140,123 as a result of depreciation and the disposal of various equipment. In the prior fiscal year, the equipment was the property of the Educational Service Center. However, during fiscal year 2010, the Educational Service Center was granted approval to transfer ownership of the equipment to the local school districts it services because that is where the equipment is actually maintained.

Total liabilities increased \$45,632. A significant increase of \$35,445 occurred within accrued wages and benefits payable from the prior fiscal year. This was the result of the Educational Service Center experiencing a significant increase in health insurance premiums during fiscal year 2010. The decrease in long-term liabilities is the result of annual lease payments.

Invested in capital assets, net of related debt of governmental activities decreased \$97,329. This is due primarily to the disposal of equipment as mentioned above.

Restricted net assets, when viewed alone, experienced a decrease of \$78,692 when compared to the prior fiscal year. This is primarily due to the Educational Service Center utilizing prior fiscal year carryover expenditures relating to grant programs continuing into fiscal year 2010, but not funded in the current fiscal year.

Unrestricted net assets had an increase of \$137,314 as a result of the Educational Service Center receiving a greater amount of monies for services to clients but not incurring additional costs for such services.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Table 2 shows the changes in net assets for fiscal years 2010 and 2009.

Table 2
Change in Net Assets

| | Governmental Activities | | Increase/ (Decrease) |
|--|-------------------------|------------------|-------------------------|
| | 2010 | 2009 | |
| Revenues | | | |
| Program Revenues: | | | |
| Charges for Services | \$6,235,149 | \$6,249,952 | (\$14,803) |
| Operating Grants and Contributions | 1,252,234 | 1,625,161 | (372,927) |
| Total Program Revenues | 7,487,383 | 7,875,113 | (387,730) |
| General Revenues: | | | |
| Grants and Entitlements not Restricted to Specific Programs | 1,191,358 | 1,181,532 | 9,826 |
| Contributions and Donations not Restricted to Specific Programs | 0 | 250 | (250) |
| Investment Earnings | 15,137 | 3,759 | 11,378 |
| Miscellaneous | 3,028 | 1,251 | 1,777 |
| Total General Revenues | 1,209,523 | 1,186,792 | 22,731 |
| Total Revenues | 8,696,906 | 9,061,905 | (364,999) |
| Program Expenses | | | |
| Instruction: | | | |
| Regular | 550,342 | 693,042 | (142,700) |
| Special | 3,633,645 | 3,595,410 | 38,235 |
| Adult/Continuing | 197,756 | 53,878 | 143,878 |
| Support Services: | | | |
| Pupils | 1,860,958 | 1,739,561 | 121,397 |
| Instructional Staff | 1,183,141 | 1,178,944 | 4,197 |
| Board of Education | 26,786 | 33,886 | (7,100) |
| Administration | 690,291 | 767,353 | (77,062) |
| Fiscal | 243,119 | 248,209 | (5,090) |
| Operation and Maintenance of Plant | 129,476 | 132,449 | (2,973) |
| Pupil Transportation | 17,950 | 21,698 | (3,748) |
| Central | 196,553 | 172,207 | 24,346 |
| Interest and Fiscal Charges | 5,596 | 8,335 | (2,739) |
| Total Expenses | 8,735,613 | 8,644,972 | 90,641 |
| Change in Net Assets | (38,707) | 416,933 | (455,640) |
| Net Assets at Beginning of Year | 674,891 | 257,958 | 416,933 |
| Net Assets at End of Year | \$636,184 | \$674,891 | (\$38,707) |

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Program revenues, which are primarily represented by charges for tuition and fees, as well as restricted intergovernmental revenues, were \$7,487,383 of total revenues for fiscal year 2010 and were less than fiscal year 2009. This decrease is primarily due to the Educational Service Center receiving a grant during fiscal year 2009 for which all revenue was recognized during that fiscal year and not receiving such funding during fiscal year 2010.

As stated previously, general revenues represent \$1,209,523 of the Educational Service Center's total revenues, and of this amount, \$1,191,358 consists of grants and entitlements not restricted to specific programs. Other revenue sources, such as investment earnings, are insignificant and are somewhat unpredictable revenue sources.

As should be expected, the major program expense for governmental activities is instruction, which accounts for \$4,381,743 of all governmental expenses of \$8,735,613. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for \$3,062,049 of governmental expenses. Adult/continuing instruction and support services-pupils of the Educational Service Center demonstrated significant increases from the prior fiscal year of \$143,878 and \$121,397, respectively. Adult/continuing instruction increased primarily as a result of the Educational Service Center receiving and expensing a larger amount of grant monies related to its Adult Basic Literacy Education program. Expenses for support services-pupils increased as a result of a significant increase in health insurance benefits in fiscal year 2010 compared to the prior fiscal year. Other expense programs were affected by the increase in health insurance benefits but were offset by additional decreases which resulted in insignificant changes when compared to the prior fiscal year. Regular instruction of the Educational Service Center demonstrated a significant decrease of \$142,700 as a result of the Oak Hill TANF/After School Program and the Wellston TANF/After School Program grant monies being utilized in the prior fiscal year, but such monies were not awarded to the Educational Service Center during fiscal year 2010.

The Educational Service Center's Funds

Information about the Educational Service Center's most significant funds starts on page 13. Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$8,785,822 and expenditures of \$8,612,289. The net change in fund balance for the fiscal year was most significant in the General Fund, an increase of \$142,075. This was primarily due to the Educational Service Center providing additional professional development services to local school districts. While charging local school districts for such services, the Educational Service Center would have incurred minimal expenses relating to the additional services because it already employs individuals who are providing the services.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the Educational Service Center had \$150,582 invested in capital assets (net of accumulated depreciation), a decrease of \$140,123. Additions to capital assets included miscellaneous equipment. Disposals of capital assets included various equipment, computers and computer related purchases. For further information regarding the Educational Service Center's capital assets, refer to Note 7 to the basic financial statements.

Debt

At June 30, 2010, the Educational Service Center had outstanding long-term obligations for capital leases for copier equipment and a telephone system in the amount of \$42,306, and for compensated absences. For further information regarding the Educational Service Center's long-term obligations, refer to Notes 12 and 13 to the basic financial statements.

Current Issues

The South Central Ohio Educational Service Center relies heavily on contracts with client school districts within the three county area in which it serves. In addition, State foundation per pupil funding and State and federal grants also provide significant sources of revenue to the Educational Service Center.

A major challenge facing educational service centers statewide is the level of funding by the Ohio Department of Education. Since 1997, the Educational Service Center's State per pupil funding has never increased. In fact, the Educational Service Center's State funding has been cut by 10 percent in each fiscal year since 2008. The future is most uncertain with regards to this funding. It has been reduced so much now that it does not cover the most basic of services. As a result, the Educational Service Center has been forced to look elsewhere for sources of revenue just to maintain the status quo.

Each decision made by the Educational Service Center is made with its client school districts in mind. The existence of the Educational Service Center depends on providing quality services that its clients need at a cost that is fair and reasonable. Because the use of the Educational Service Center's services is not mandated, it is imperative that the Educational Service Center continue to maintain a strong relationship with each of its clients and continue to look for ways to improve and expand its services into areas that will help its clients educate the children of their school district.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional information, contact Andrew T. Riehl, Treasurer, South Central Ohio Educational Service Center, 411 Court Street, Room 105, Portsmouth, Ohio 45662, or by calling 740-354-7761.

South Central Ohio Educational Service Center

Statement of Net Assets

June 30, 2010

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | \$1,466,547 |
| Accounts Receivable | 10,382 |
| Accrued Interest Receivable | 830 |
| Intergovernmental Receivable | 277,252 |
| Depreciable Capital Assets, Net | <u>150,582</u> |
| <i>Total Assets</i> | <u>1,905,593</u> |
| <u>Liabilities:</u> | |
| Accounts Payable | 36,544 |
| Accrued Wages and Benefits Payable | 724,801 |
| Intergovernmental Payable | 132,291 |
| Matured Compensated Absences Payable | 589 |
| Long-Term Liabilities: | |
| Due Within One Year | 137,642 |
| Due in More Than One Year | <u>237,542</u> |
| <i>Total Liabilities</i> | <u>1,269,409</u> |
| <u>Net Assets:</u> | |
| Invested in Capital Assets, Net of Related Debt | 108,276 |
| Restricted for Alternative In School Program | 25,611 |
| Restricted for Adult Basic Literacy Education | 16,244 |
| Restricted for Even Start | 71,586 |
| Restricted for Wellston TANF Program | 86,106 |
| Restricted for Other Purposes | 22,305 |
| Unrestricted | <u>306,056</u> |
| <i>Total Net Assets</i> | <u><u>\$636,184</u></u> |

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2010

| | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | |
|---|---------------------------|---------------------------------------|---|---------------------------|
| Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities | |
| <u>Governmental Activities:</u> | | | | |
| Instruction: | | | | |
| Regular | \$550,342 | \$300,413 | \$198,086 | (\$51,843) |
| Special | 3,633,645 | 2,810,608 | 346,571 | (476,466) |
| Adult/Continuing | 197,756 | 13,057 | 206,181 | 21,482 |
| Support Services: | | | | |
| Pupils | 1,860,958 | 1,688,743 | 76,135 | (96,080) |
| Instructional Staff | 1,183,141 | 1,306,372 | 300,744 | 423,975 |
| Board of Education | 26,786 | 0 | 0 | (26,786) |
| Administration | 690,291 | 77,023 | 38,945 | (574,323) |
| Fiscal | 243,119 | 0 | 45,003 | (198,116) |
| Operation and Maintenance of Plant | 129,476 | 0 | 21,651 | (107,825) |
| Pupil Transportation | 17,950 | 0 | 13,854 | (4,096) |
| Central | 196,553 | 38,933 | 5,064 | (152,556) |
| Interest and Fiscal Charges | 5,596 | 0 | 0 | (5,596) |
| <i>Total Governmental Activities</i> | <u>\$8,735,613</u> | <u>\$6,235,149</u> | <u>\$1,252,234</u> | <u>(1,248,230)</u> |
| <i>General Revenues:</i> | | | | |
| | | | | 1,191,358 |
| | | | | 15,137 |
| | | | | 3,028 |
| | | | | <u>1,209,523</u> |
| | | | | (38,707) |
| | | | | 674,891 |
| | | | | <u>\$636,184</u> |

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center

Balance Sheet
Governmental Funds
June 30, 2010

| | General | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------------------|--------------------------------|
| <u>Assets:</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,307,858 | \$158,689 | \$1,466,547 |
| Receivables: | | | |
| Accounts | 10,382 | 0 | 10,382 |
| Intergovernmental | 81,215 | 196,037 | 277,252 |
| Accrued Interest | 830 | 0 | 830 |
| Interfund | 8,559 | 0 | 8,559 |
| <i>Total Assets</i> | \$1,408,844 | \$354,726 | \$1,763,570 |
| <u>Liabilities and Fund Balances:</u> | | | |
| <u>Liabilities:</u> | | | |
| Accounts Payable | \$34,957 | \$1,587 | \$36,544 |
| Accrued Wages and Benefits Payable | 641,816 | 82,985 | 724,801 |
| Intergovernmental Payable | 111,576 | 20,715 | 132,291 |
| Interfund Payable | 0 | 8,559 | 8,559 |
| Matured Compensated Absences Payable | 589 | 0 | 589 |
| Deferred Revenue | 786 | 49,136 | 49,922 |
| <i>Total Liabilities</i> | 789,724 | 162,982 | 952,706 |
| <u>Fund Balances:</u> | | | |
| Reserved for Encumbrances | 68,233 | 51,636 | 119,869 |
| Unreserved, Undesignated, Reported in: | | | |
| General Fund | 550,887 | 0 | 550,887 |
| Special Revenue Funds | 0 | 140,108 | 140,108 |
| <i>Total Fund Balances</i> | 619,120 | 191,744 | 810,864 |
| <i>Total Liabilities and Fund Balances</i> | \$1,408,844 | \$354,726 | \$1,763,570 |

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2010

Total Governmental Fund Balances \$810,864

*Amounts reported for governmental activities in the
 Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

| | | |
|--------------------------|-------------|---------|
| Capital assets | 1,225,691 | |
| Accumulated depreciation | (1,075,109) | |
| Total capital assets | 150,582 | 150,582 |

Some of the Educational Service Center's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

| | | |
|-------------------|--------|--------|
| Intergovernmental | 49,136 | |
| Accrued Interest | 786 | |
| | 49,922 | 49,922 |

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

| | | |
|----------------------|-----------|-----------|
| Capital leases | (42,306) | |
| Compensated absences | (332,878) | |
| Total liabilities | (375,184) | (375,184) |

Net Assets of Governmental Activities \$636,184

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

| | General | Other Governmental Funds | Total Governmental Funds |
|---|-------------------------|--------------------------------|--------------------------------|
| <u>Revenues:</u> | | | |
| Intergovernmental | \$1,221,358 | \$1,285,573 | \$2,506,931 |
| Investment Earnings | 14,351 | 0 | 14,351 |
| Tuition and Fees | 5,162,827 | 19,637 | 5,182,464 |
| Customer Sales and Service | 1,049,947 | 2,738 | 1,052,685 |
| Contributions and Donations | 26,363 | 0 | 26,363 |
| Miscellaneous | 3,028 | 0 | 3,028 |
| <i>Total Revenues</i> | <u>7,477,874</u> | <u>1,307,948</u> | <u>8,785,822</u> |
| <u>Expenditures:</u> | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 366,361 | 184,859 | 551,220 |
| Special | 3,261,944 | 349,259 | 3,611,203 |
| Adult/Continuing | 15,121 | 175,920 | 191,041 |
| Support Services: | | | |
| Pupils | 1,773,929 | 76,521 | 1,850,450 |
| Instructional Staff | 733,548 | 358,525 | 1,092,073 |
| Board of Education | 26,786 | 0 | 26,786 |
| Administration | 648,372 | 37,260 | 685,632 |
| Fiscal | 196,063 | 47,543 | 243,606 |
| Operation and Maintenance of Plant | 106,648 | 22,535 | 129,183 |
| Pupil Transportation | 1,294 | 16,656 | 17,950 |
| Central | 159,469 | 5,286 | 164,755 |
| Debt Service: | | | |
| Principal Retirement | 40,974 | 1,820 | 42,794 |
| Interest and Fiscal Charges | 5,290 | 306 | 5,596 |
| <i>Total Expenditures</i> | <u>7,335,799</u> | <u>1,276,490</u> | <u>8,612,289</u> |
| <i>Net Change in Fund Balances</i> | 142,075 | 31,458 | 173,533 |
| <i>Fund Balances at Beginning of Year</i> | <u>477,045</u> | <u>160,286</u> | <u>637,331</u> |
| <i>Fund Balances at End of Year</i> | <u><u>\$619,120</u></u> | <u><u>\$191,744</u></u> | <u><u>\$810,864</u></u> |

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$173,533

***Amounts reported for governmental activities in the
 Statement of Activities are different because:***

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | |
|--|----------|----------|
| Capital assets additions | 16,615 | |
| Depreciation expense | (89,700) | |
| | | |
| Excess of capital outlay over depreciation expense | | (73,085) |

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of capital assets are removed from the capital assets account in the Statement of Net Assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the Statement of Activities.

| | | |
|------------------------------------|--|----------|
| Loss on disposal of capital assets | | (67,038) |
|------------------------------------|--|----------|

Because some revenues will not be collected for several months after the Educational Service Center's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

| | | |
|-------------------|----------|----------|
| Intergovernmental | (89,702) | |
| Interest | 786 | |
| | | |
| | | (88,916) |

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current fiscal year, these amounts consist of:

| | | |
|------------------------|--|--------|
| Capital lease payments | | 42,794 |
|------------------------|--|--------|

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

| | | |
|--|----------|----------|
| Grants cancelled | (5,721) | |
| Increase in compensated absences payable | (20,274) | |
| | | |
| | | (25,995) |

Change in Net Assets of Governmental Activities (\$38,707)

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

| | <u>Agency</u> |
|--|---------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | \$1,349,374 |
| Investments in Segregated Accounts | 4,455,191 |
| Receivables: | |
| Accrued Interest | <u>20,688</u> |
| <i>Total Assets</i> | <u><u>\$5,825,253</u></u> |
| <u>Liabilities:</u> | |
| Undistributed Monies | <u><u>\$5,825,253</u></u> |

See accompanying notes to the basic financial statements

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South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The South Central Ohio Educational Service Center (the “Educational Service Center”) is located in Portsmouth, Ohio, the county seat of Scioto County. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Oak Hill, Bloom-Vernon, Clay, Green, Minford, New Boston, Northwest, Valley, Washington-Nile, Wheelersburg, and Manchester Local School Districts, as well as the Scioto County Joint Vocational School District. The Portsmouth City School District is served on a limited basis in the area of handicapped students. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The South Central Ohio Educational Service Center operates under a locally-elected Board form of government consisting of seven members elected at-large for staggered four year terms. The Educational Service Center has 51 classified, 83 certified, and two administrative personnel that provide services to the local, city, and joint vocational school districts.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Educational Service Center, this includes general operations and student developmental activities.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization’s governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization’s resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. The Educational Service Center has no component units.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY *(continued)*

The Educational Service Center participates in five organizations, three of which are defined as jointly governed organizations, one as a public entity shared risk pool, and one as a related organization. Information about these organizations is presented in Note 14 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

South Central Ohio Computer Association

Family and Children First Council of Scioto County

Coalition of Rural and Appalachian Schools

Public Entity Shared Risk Pool:

Scioto County Schools Council

Related Organization:

Scioto County Career Technical Center

The Educational Service Center serves as fiscal agent for the Family and Children First Council of Scioto County and the Scioto County Schools Council. The Family and Children First Council provides services to disadvantaged school age children and the Scioto County Schools Council administers programs of health and dental insurance for the benefit of its members' employees and their dependents to obtain lower costs of health and dental coverage. These organizations are presented as agency funds within the Educational Service Center's financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The Educational Service Center's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the Educational Service Center as a whole. These statements include the financial activities of the Educational Service Center, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities that are governmental and those that are considered business-type activities. The Educational Service Center, however, has no activities which are reported as business-type.

The Statement of Net Assets presents the financial condition of the governmental activities of the Educational Service Center at fiscal year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service 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 Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds, rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Educational Service Center fall within two categories: governmental and fiduciary.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Governmental Funds

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

The following is the Educational Service Center's major governmental fund:

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

The other governmental funds of the Educational Service Center account for grants and other resources of the Educational Service Center whose use is restricted to a particular purpose.

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 Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's only fiduciary funds are agency funds used to account for the Family and Children First Council of Scioto County and the Scioto County Schools Council.

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fund Financial Statements

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means that the amount of the transaction can be determined, and “available” means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: tuition and fees, customer sales, grants and accrued interest.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. The Scioto County Schools Council has its own investment account to administer health and dental insurance for the benefit of the Council members' employees and their dependents. The investment account is presented on the Statement of Fiduciary Net Assets as "Investments in Segregated Accounts".

During fiscal year 2010, the Educational Service Center's investments were limited to Federal National Mortgage Association Bonds, Federal Home Loan Bank Bonds, Federal National Mortgage Association Notes, negotiable certificates of deposit, and State Treasury Asset Reserve of Ohio (STAROhio). Investments are reported at fair value which is based on quoted market prices.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Following Ohio statutes, the Educational Service Center has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2010 amounted to \$14,351, which includes \$11,986 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as Cash Equivalents.

Capital Assets

The Educational Service Center's only capital assets are general capital assets. General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Depreciation of furniture, fixtures and equipment is computed using the straight-line method over five to 20 years.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probably that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees are paid. The unmatured portion of the liability is not reported.

Accrued Liabilities and Long-Term Obligations

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

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivable" and "Interfund Payable". These amounts are eliminated in the governmental activities column of the Statement of Net Assets.

Internal Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fund Balance Reserves

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

Net Assets

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

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

Estimates

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

NOTE 3 - ACCOUNTABILITY

At June 30, 2010, the Title VI-B Pre-School Handicapped and the EHA Pre-School Grant Special Revenue Funds had deficit fund balances of \$1,043 and \$9,806, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS

Monies held by the Educational Service Center are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Educational Service Center treasury. Active monies must be maintained either as cash in the Educational Service 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 Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the Educational Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 security 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;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS *(continued)*

8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Investments: As of June 30, 2010, the Educational Service Center had the following investments. All investments, except the negotiable certificates of deposits and a portion of the Federal National Mortgage Association Bonds, are held on behalf of the Scioto County Schools Council.

| | Fair Value | Investment Maturities in Years | | | | S&P Rating | Call Date | Percent of Total Investments |
|---|--------------------|--------------------------------|------------------|--------------------|--------------------|------------------|--------------------|---------------------------------|
| | | Less than 1 | 1 - 2 | 3 - 4 | 5 - 6 | | | |
| Federal National Mortgage Association Bonds | \$1,567,692 | \$0 | \$304,593 | \$1,263,099 | \$0 | AAA | 8/26/10 - 11/14/11 | 31.60% |
| Federal Home Loan Bank Bonds | 199,750 | 0 | 0 | 199,750 | 0 | AAA | 06/30/11 | 4.03% |
| Federal National Mortgage Association Notes | 2,984,862 | 0 | 0 | 0 | 2,984,862 | AAA | 9/30/10 - 10/29/12 | 60.17% |
| Negotiable Certificates of Deposit | 201,065 | 201,065 | 0 | 0 | 0 | --- | | 4.05% |
| STAROhio | 7,482 | 7,482 | 0 | 0 | 0 | AAA _m | | 0.15% |
| Totals | \$4,960,851 | \$208,547 | \$304,593 | \$1,462,849 | \$2,984,862 | | | 100.00% |

Interest Rate Risk

As a means of limiting its exposure to fair value losses caused by rising interest rates, the Educational Service Center's investment policy requires that, to the extent possible, investments will match anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to its maturity. Unless matched to a specific obligation or debt of the Educational Service Center, the Educational Service Center will not directly invest in securities maturing more than five years from the date of investment.

Credit Risk

The S&P ratings of the School District's investments are listed in the table above. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center's investment policy limits investments to those authorized by State statute.

Concentration of Credit Risk

The Educational Service Center places no limit on the amount it may invest in any one issuer. The percentage that each investment represents of the total investments is listed in the table above.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 5 - STATE AND LOCAL SCHOOL DISTRICT FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city and local school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's city and local school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$40.52 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$16.40 times the school district's total student count and remits this amount to the Educational Service Center. Each client of the Educational Service Center has agreed to pay more than the statutory limit of \$6.50.

The Educational Service Center may contract with city, exempted village, local, joint vocational, or cooperative educational school districts to provide special education and related services or career-technical educational services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 6 - RECEIVABLES

Receivables at June 30, 2010, consisted of accounts, intergovernmental grants, accrued interest and interfund amounts. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivable amounts are expected to be received within one year.

A summary of the principal items of intergovernmental receivables follows:

| | <u>Amounts</u> |
|---|-------------------------|
| <u>Governmental Activities:</u> | |
| Even Start Program | \$108,162 |
| Charges to Local School Districts and Other Governmental Entities | 66,900 |
| Adult Basic and Literacy Education Grant | 32,643 |
| Ohio Alternative Education Challenge Grant | 20,644 |
| Excess Costs | 14,315 |
| Early Childhood Special Education, IDEA Grant | 13,473 |
| Family and Civic Engagement Grant | 10,325 |
| School Psychology Intern Grant | 8,715 |
| Title I-D, Delinquent Grant | 2,075 |
| Total Intergovernmental Receivable | <u><u>\$277,252</u></u> |

NOTE 7 - CAPITAL ASSETS

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

| | <u>Balance at</u> <u>6/30/09</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance at</u> <u>6/30/10</u> |
|-----------------------------------|-------------------------------------|--------------------------|--------------------------|-------------------------------------|
| <u>Governmental Activities:</u> | | | | |
| Furniture, Fixtures and Equipment | \$1,292,571 | \$16,615 | (\$83,495) | \$1,225,691 |
| Less Accumulated Depreciation: | | | | |
| Furniture, Fixtures and Equipment | <u>(1,001,866)</u> | <u>(89,700) *</u> | <u>16,457</u> | <u>(1,075,109)</u> |
| Governmental Activities | | | | |
| Capital Assets, Net | <u><u>\$290,705</u></u> | <u><u>(\$73,085)</u></u> | <u><u>(\$67,038)</u></u> | <u><u>\$150,582</u></u> |

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 7 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|------------------------|
| Instruction: | |
| Regular | \$2,426 |
| Special | 21,381 |
| Adult/Continuing | 909 |
| Support Services: | |
| Pupils | 9,705 |
| Instructional Staff | 19,897 |
| Administration | 2,118 |
| Fiscal | 524 |
| Operation and Maintenance of Plant | 293 |
| Central | 32,447 |
| Total Depreciation Expense | <u><u>\$89,700</u></u> |

NOTE 8 - RISK MANAGEMENT

The Educational Service 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. During fiscal year 2010, the Educational Service Center contracted with School Insurance Consultants, LLC (SIC) for insurance consulting services. The premium paid to SIC for fiscal year 2010 was \$2,668. The Educational Service Center also pays to the awarded insurance agency an insurance premium that is based on types of coverage, limits of coverage, and deductibles that it selects. For the fiscal year, the Educational Service Center contracted with Argonaut Insurance Company for liability, property, and automobile liability insurance coverage and paid its premium to Governmental Underwriters of America, Inc, an agent for Argonaut Insurance Company.

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

The Educational Service Center pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The Educational Service Center participates in and is fiscal agent for the Scioto County Schools Council (the "Council"), a public entity shared risk pool (Note 14), consisting of school districts within the County offering medical and dental insurance to their employees. Monthly premiums are paid to the Educational Service Center as fiscal agent, who in turn pays the claims.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 8 - RISK MANAGEMENT *(continued)*

The Council is responsible for the management and operations of the program. Upon termination from the Council, for any reason, the Council shall have no obligation under the plan beyond paying the difference between the claims incurred (even though later filed) and expenses of the plan due up to the date of termination plus extended benefits, if any, provided under the plan. Such claims and expenses shall be paid from the funds of the Council.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

Plan Description – The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer 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.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center’s contribution is used to fund pension and death benefit 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 and death benefit 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 Educational Service Center’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008, were \$197,450, \$121,054, and \$119,904, respectively; 91.83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

State Teachers Retirement System of Ohio

Plan Description – The Educational Service 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 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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

A DB or Combined Plan member with five or more years of 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 the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. 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 Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008, were \$546,021, \$543,827, and \$512,864, respectively; 89 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$13,957 made by the Educational Service Center and \$9,969 made by the plan members.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2010, two members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 10 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System

Plan Description – The Educational Service Center participates in two cost-sharing, multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for non-certified 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 SERS 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 Street, Suite 100, Columbus, Ohio 43215-3746.

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 401h. For 2010, 0.46 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 2010, this amount was \$35,800.

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

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008, were \$26,864, \$81,535, and \$79,564, respectively; 91.83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008, were \$11,742, \$9,988, and \$8,639, respectively; 91.83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 10 - POSTEMPLOYMENT BENEFITS *(continued)*

State Teachers Retirement System of Ohio

Plan Description – The Educational Service Center contributes to the cost-sharing, multiple-employer defined benefit Health 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 postemployment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008, were \$42,002, \$41,833, and \$39,451, respectively; 89 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 11 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Support staff earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified staff upon termination of employment. Teachers do not earn vacation time.

Teachers and support staff earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all employees.

Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through AIG/American General.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 11 - EMPLOYEE BENEFITS (continued)

Deferred Compensation

Educational Service Center employees may participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Business Officials Deferred Compensation Plan. Both plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 12 - LEASES

In prior fiscal years, the Educational Service Center entered into capitalized leases for a new telephone system and furniture, fixtures and equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease were initially capitalized in the amount of \$206,403, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the Statement of Net Assets for governmental activities. Principal payments in fiscal year 2010 totaled \$42,794 and were paid from the General Fund and the Alternative In School and Even Start Special Revenue Funds.

The assets acquired through capital leases as of June 30, 2010, are as follows:

| | <u>Asset Value</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|------------------|------------------------|-------------------------------------|---------------------------|
| <u>Asset:</u> | | | |
| Copier Equipment | \$123,216 | \$86,725 | \$36,491 |
| Telephone System | 83,187 | 78,539 | 4,648 |
| Totals | <u>\$206,403</u> | <u>\$165,264</u> | <u>\$41,139</u> |

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 12 - LEASES (continued)

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

| Fiscal Year Ending June 30, | Total Payments |
|---|----------------|
| 2011 | \$30,600 |
| 2012 | 14,711 |
| Total | 45,311 |
| Less: Amount Representing Interest | (3,005) |
| Present Value of Net Minimum Lease Payments | \$42,306 |

The Educational Service Center leases a building under a noncancelable operating lease. The Educational Service Center entered into a new two year agreement relating to this noncancelable operating lease during fiscal year 2009. This agreement expired June 30, 2010. However, the Educational Service Center has yet to enter into a new agreement for future fiscal years. Operating lease payments are reported as function expenditures in governmental funds and on budgetary statements. Total operating lease payments in fiscal year 2010 totaled \$150,000 in the General Fund and the Alternative In School Special Revenue Fund.

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2010 were as follows:

| | Amount Outstanding 6/30/09 | Additions | Deductions | Amount Outstanding 6/30/10 | Amounts Due Within One Year |
|---------------------------------|----------------------------------|-----------|------------|----------------------------------|-----------------------------------|
| <u>Governmental Activities:</u> | | | | | |
| Capital Leases Payable | \$85,100 | \$0 | \$42,794 | \$42,306 | \$27,966 |
| Compensated Absences | 312,604 | 143,378 | 123,104 | 332,878 | 109,676 |
| Total Governmental Activities | | | | | |
| Long-Term Obligations | \$397,704 | \$143,378 | \$165,898 | \$375,184 | \$137,642 |

Capital leases will be paid from the General Fund and the Alternative In School and Even Start Special Revenue Funds. Compensated absences will be paid from the General Fund and the Adult Basic Literacy Education, Title VI-B Pre-School Handicapped, Even Start, and Miscellaneous Federal Grants Special Revenue Funds.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS, PUBLIC ENTITY SHARED RISK POOL, AND RELATED ORGANIZATION

Jointly Governed Organizations

South Central Ohio Computer Association

The Educational Service Center is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The Educational Service Center paid SCOCA \$2,000 for services provided during the fiscal year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper who serves as Treasurer, at P.O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

Family and Children First Council of Scioto County

The Family and Children First Council of Scioto County (the "Council") is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: the director of the Alcohol, Drug Addiction and Mental Health Services Board of Adams, Lawrence, and Scioto Counties; the director of the Scioto County Health Department; the director of the City of Portsmouth Health Department; the director of the Scioto County Department of Human Services; the executive director of the Scioto County Children Services; the superintendent of the Scioto County Board of Developmental Disabilities; the Scioto County juvenile court judge; the superintendent of the city, exempted village, or local school district with the largest number of pupils residing in the County; a school superintendent representing all other school districts in the County; a representative of the City of Portsmouth; the chair of the Scioto County commissioners; a representative of the regional office of the department of youth services; a representative of the Scioto County Head Start Program; a representative of the County's Early Intervention Collaborative established pursuant to the program; a representative of the federal early intervention program operated under the "Education of the Handicapped Act Amendments of 1988" and at least three individuals representing the interest of families in the County. The Council provides services to disadvantage school age children. The Educational Service Center made no contributions to the Council during fiscal year 2010. Continued existence of the Council is not dependent on the Educational Service Center's continued participation, no equity interest exists, and no debt is outstanding. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at 411 Court Street, Portsmouth, Ohio 45662.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS, PUBLIC ENTITY SHARED RISK POOL, AND RELATED ORGANIZATION *(continued)*

Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (the “Coalition”) is a jointly governed organization of over 100 school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of 14 members. The Board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various services for school district administrative personnel; gathers data regarding education conditions in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Coalition. The Educational Service Center paid \$300 to the Coalition for services provided during the fiscal year.

Public Entity Shared Risk Pool

Scioto County Schools Council

The Educational Service Center is a member and fiscal agent of the Scioto County Schools Council (the “Council”), a public entity shared risk pool. Several Scioto County school districts have entered into an agreement with the Educational Service Center to form the Scioto County Schools Council. The overall objectives of the Council are to formulate and administer programs of health and dental insurance for the benefit of the Council members’ employees and their dependents, to obtain lower costs for health and dental coverage, and to secure cost control by implementing a program of comprehensive loss control. The Council’s business and affairs are managed by a Board of Directors, consisting of the superintendents from each of the participating school districts. The Educational Service Center pays premiums based on what the Council estimates will cover the costs of all claims for which the Council is obligated. If the Educational Service Center’s claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District’s claims are low, it will not receive a refund. The Council views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at 411 Court Street, Portsmouth, Ohio 45662.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS, PUBLIC ENTITY SHARED RISK POOL, AND RELATED ORGANIZATION *(continued)*

Related Organization

Scioto County Career Technical Center

The Scioto County Career Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a five member Board of Education. Two representatives are appointed by the Portsmouth City School District and three representatives are appointed by the South Central Ohio Educational Service Center. The Scioto County Career Technical Center exposes students to job training, leading to employment upon graduation from high school. There is no financial benefit/burden relationship between the Scioto County Career Technical Center and the South Central Ohio Educational Service Center, nor can the South Central Ohio Educational Service Center impose their will on the Scioto County Career Technical Center.

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 2010, interfund receivables and payables that resulted from various interfund transactions totaled \$8,559 from the General Fund to Other Governmental Funds.

General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Advancing monies to other funds is necessary due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund will use these restricted monies to reimburse the General Fund for the initial advance.

NOTE 16 - CONTINGENCIES

Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2010.

Litigation

The Educational Service Center is not party to any legal proceedings.

South Central Ohio Educational Service Center
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2010

| | <u>Budget Amounts</u> | | Actual | Variance With Final Budget Over/(Under) |
|---|-----------------------|--------------------|--------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>Revenues:</u> | | | | |
| Intergovernmental | \$1,186,584 | \$1,204,778 | \$1,221,358 | \$16,580 |
| Investment Earnings | 9,882 | 10,034 | 10,034 | 0 |
| Tuition and Fees | 5,065,253 | 5,142,918 | 5,135,917 | (7,001) |
| Customer Sales and Service | 1,017,250 | 1,032,847 | 1,034,939 | 2,092 |
| Contributions and Donations | 25,965 | 26,363 | 26,363 | 0 |
| <i>Total Revenues</i> | <u>7,304,934</u> | <u>7,416,940</u> | <u>7,428,611</u> | <u>11,671</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 404,980 | 367,908 | 367,908 | 0 |
| Special | 3,512,277 | 3,283,083 | 3,283,083 | 0 |
| Adult/Continuing | 7,857 | 17,564 | 17,564 | 0 |
| Support Services: | | | | |
| Pupils | 1,693,930 | 1,790,021 | 1,790,021 | 0 |
| Instructional Staff | 759,585 | 716,319 | 741,701 | (25,382) |
| Board of Education | 35,290 | 28,982 | 28,982 | 0 |
| Administration | 691,077 | 654,241 | 654,241 | 0 |
| Fiscal | 193,669 | 207,988 | 207,988 | 0 |
| Operation and Maintenance of Plant | 103,050 | 107,009 | 107,009 | 0 |
| Pupil Transportation | 0 | 1,289 | 1,289 | 0 |
| Central | 179,234 | 187,699 | 187,699 | 0 |
| <i>Total Expenditures</i> | <u>7,580,949</u> | <u>7,362,103</u> | <u>7,387,485</u> | <u>(25,382)</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(276,015)</u> | <u>54,837</u> | <u>41,126</u> | <u>(13,711)</u> |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Refund of Prior Year Expenditures | 2,982 | 3,028 | 3,028 | 0 |
| Advances In | 292,254 | 296,735 | 252,394 | (44,341) |
| Advances Out | (170,000) | (240,976) | (189,924) | 51,052 |
| <i>Total Other Financing Sources (Uses)</i> | <u>125,236</u> | <u>58,787</u> | <u>65,498</u> | <u>6,711</u> |
| <i>Net Change in Fund Balance</i> | (150,779) | 113,624 | 106,624 | (7,000) |
| <i>Fund Balance at Beginning of Year</i> | 1,022,196 | 1,022,196 | 1,022,196 | 0 |
| Prior Year Encumbrances Appropriated | 68,328 | 68,328 | 68,328 | 0 |
| <i>Fund Balance at End of Year</i> | <u>\$939,745</u> | <u>\$1,204,148</u> | <u>\$1,197,148</u> | <u>(\$7,000)</u> |

See accompanying budgetary notes

South Central Ohio Educational Service Center

Budgetary Notes

For the Fiscal Year Ended June 30, 2010

NOTE 1 - BUDGETARY PROCESS

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

The Educational Service 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 Educational Service Center's Governing Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources. The resolution sets annual limits on expenditures plus encumbrances 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 Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) – for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

South Central Ohio Educational Service Center

Budgetary Notes

For the Fiscal Year Ended June 30, 2010

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING (continued)

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
4. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP Basis).
5. Investments are recorded at fair value (GAAP basis) rather than cost (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

| <u>Net Change in Fund Balances</u> | |
|--|-----------|
| GAAP Basis | \$142,075 |
| Adjustments: | |
| Revenue Accruals | (41,815) |
| Expenditure Accruals | 54,986 |
| Decrease in Fair Value of Investments - FY 2009 | (382) |
| Increase in Fair Value of Investments - FY 2010 | (4,038) |
| Advances | 62,470 |
| Encumbrances | (106,672) |
| Budget Basis | \$106,624 |

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

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

| FEDERAL GRANTOR/ Pass Through Grantor Program Title | Grant Year | Federal CFDA Number | Receipts | Disbursements |
|--|---------------|---------------------------|----------------------------|--------------------------|
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| Adult Educator - Basic Grants to States | 2010 | 84.002 | \$ 123,543 | \$ 123,543 |
| Javits Gifted and Talented Students Education Grant Program | 2008 | 84.206 | | 2,484 |
| Title I Cluster: | | | | |
| Title I Grants to Local Education Agencies | 2009 | 84.010 | 2,801 | 911 |
| School Improvement Subsidy A | 2010 | | 8,200 | 8,200 |
| | 2010 | | 16,153 | 15,637 |
| Total Title I Grants to Local Educational Agencies | | | <u>27,154</u> | <u>24,748</u> |
| ARRA - Title I Grant to Local Education Agencies | 2010 | 84.389 | <u>10,997</u> | <u>11,809</u> |
| Total Title I Cluster | | | 38,151 | 36,557 |
| Special Education Cluster: | | | | |
| Special Education - Grants to States | 2009 | 84.027 | 33,660 | 15,917 |
| | 2010 | | 67,420 | 65,138 |
| Total Special Education - Grants to States | | | <u>101,080</u> | <u>81,055</u> |
| Special Education - Preschool Grants | 2009 | 84.173 | 5,400 | 9,019 |
| | 2010 | | 37,286 | 37,111 |
| Total Special Education - Preschool Grants | | | <u>42,686</u> | <u>46,130</u> |
| ARRA - Special Educator - Preschool Grants | 2010 | 84.392 | <u>41,847</u> | <u>40,974</u> |
| Total Special Education Cluster | | | 185,613 | 168,159 |
| Even Start - State Educational Agencies | 2009 | 84.213 | 63,393 | 59,229 |
| | 2010 | | 414,769 | 394,635 |
| Total Even Start - State Educational Agencies | | | <u>478,162</u> | <u>453,864</u> |
| Twenty-First Century Community Learning Centers | 2009 | 84.287 | | 5,467 |
| | 2010 | | 202,675 | 203,742 |
| Total Twenty-First Century Community Learning Centers | | | <u>202,675</u> | <u>209,209</u> |
| Total U.S. Department of Education | | | <u>1,028,144</u> | <u>993,816</u> |
| Total Federal Awards Receipts and Expenditures | | | <u><u>\$ 1,028,144</u></u> | <u><u>\$ 993,816</u></u> |

The Notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of the Schedule.

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

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

NOTE A – BASIS OF ACCOUNTING

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

NOTE B – MATCHING REQUIREMENTS

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



Dave Yost • Auditor of State

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

South Central Ohio Educational Service Center
Scioto County
411 Court Street
Portsmouth, Ohio 45662

To the Governing Board:

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2010, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated March 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Educational Service 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 Governing Board, federal awarding agencies and pass-through entities, and others within the Educational Service 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

March 7, 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

South Central Ohio Educational Service Center
Scioto County
411 Court Street
Portsmouth, Ohio 45662

To the Governing Board:

Compliance

We have audited the compliance of the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Educational Service Center's major federal programs for the year ended June 30, 2010. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the Educational Service Center's major federal programs. The Educational Service 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 Educational Service 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 Educational Service 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 Educational Service 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 year ended June 30, 2010.

Internal Control Over Compliance

The Educational Service 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 Educational Service 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 Educational Service Center's internal control over compliance.

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www.auditor.state.oh.us

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

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

We intend this report solely for the information and use of the audit committee, management, the Governing Board, others within the Educational Service Center, federal awarding agencies, and pass-through entities. 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

March 7, 2011

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| (d)(1)(iv) | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under . § 510(a)? | No |
| (d)(1)(vii) | Major Programs (list): | Special Education Cluster – CFDA #84.027, 84.173 and 84.392 Twenty-First Century Community Learning Centers – CFDA #84.287 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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Dave Yost • Auditor of State

SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SCIOTO 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 22, 2011**