



Dave Yost • Auditor of State

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

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

North Central Ohio Educational Service Center
Seneca County
928 West Market Street
Tiffin, Ohio 44883-2529

To the Board of Governors:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the ESC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the ESC's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of North Central Educational Service Center, Seneca County, Ohio (the ESC), as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the ESC adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the ESC's basic financial statements taken as a whole.

The schedule of revenues, expenditures and changes in fund balance – budget and actual comparison (non-GAAP budgetary basis) provides additional analysis and is not a required part of the basic financial statements.

The Federal Award Receipt and Expenditure Schedule also presents additional analysis as 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 financial statements.

The schedules are management's responsibility and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling schedules 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, these schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2014, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ESC's internal control over financial reporting and compliance.

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

Columbus, Ohio

February 11, 2014

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED**

The management's discussion and analysis of the North Central Ohio Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2013 are as follows:

- In total, net position of governmental activities decreased \$1,308,942, which represents a 215.92% decrease from 2012's restated amount.
- General revenues accounted for \$3,077,603 in revenue or 16.46% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$15,614,467 or 83.54% of total revenues of \$18,692,070.
- The ESC had \$20,001,012 in expenses related to governmental activities; \$15,614,467 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$3,077,603 were not adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$16,214,650 in revenues and \$17,349,893 in expenditures and other financing uses. During fiscal year 2013, the general fund's fund balance decreased \$1,135,243 from a balance of \$403,903 to a deficit balance of \$731,340.

Using these Basic Financial Statements

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

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

Reporting the ESC as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the ESC's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the ESC's Fiduciary Responsibilities

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

Notes to the Basic Financial Statements

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

Supplemental Information

The ESC has presented a budgetary comparison schedule for the general fund as supplemental information.

The ESC as a Whole

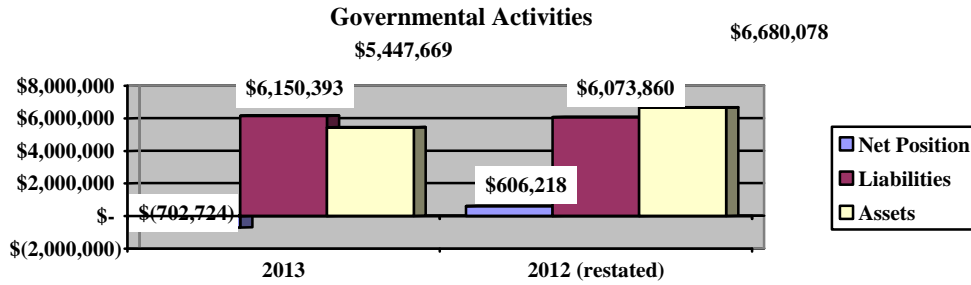
The statement of net position provides the perspective of the ESC as a whole. The table below provides a summary of the ESC's net position at June 30, 2013 and June 30, 2012. The net position at June 30, 2012 has been restated as described in Note 3.A.

	Net Position	
	Governmental Activities	Governmental Activities
	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Current assets	\$ 1,424,570	\$ 2,516,668
Capital assets, net	<u>4,023,099</u>	<u>4,163,410</u>
Total assets	<u>5,447,669</u>	<u>6,680,078</u>
<u>Liabilities</u>		
Current liabilities	1,948,894	1,819,873
Long-term liabilities	<u>4,201,499</u>	<u>4,253,987</u>
Total liabilities	<u>6,150,393</u>	<u>6,073,860</u>
<u>Net Position</u>		
Net investment in capital assets	618,099	633,410
Restricted	28,325	119,358
Unrestricted (deficit)	<u>(1,349,148)</u>	<u>(146,550)</u>
Total net position (deficit)	<u>\$ (702,724)</u>	<u>\$ 606,218</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the ESC's liabilities exceeded assets by \$702,724. Of this total, \$28,325 is restricted in use leaving the ESC with unrestricted net position with a deficit of \$1,349,148. The graph below illustrates the ESC's governmental activities assets, liabilities, and net position at June 30, 2013 and June 30, 2012.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)**



The table below shows the change in net position for fiscal years 2013 and 2012. The net position at June 30, 2012 has been restated as described in Note 3.A.

	Change in Net Position	
	Governmental Activities 2013	Governmental Activities 2012
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 13,132,255	\$ 12,826,963
Operating grants and contributions	2,482,212	2,387,060
General revenues:		
Grants and entitlements, unrestricted	2,923,657	3,133,038
Investment earnings	1,329	1,410
Miscellaneous	152,617	384,345
Total revenues	<u>18,692,070</u>	<u>18,732,816</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)**

	Change in Net Position	
	Governmental	Restated
	Activities	Governmental
	<u>2013</u>	<u>2012</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	1,549,449	1,196,344
Special	5,114,018	4,675,441
Other	84,216	17,392
Support services:		
Pupil	4,093,415	4,535,131
Instructional staff	3,940,363	3,952,256
Board of education	67,357	100,267
Administration	1,957,655	1,576,602
Fiscal	791,165	681,216
Business	162,876	197,803
Operations and maintenance	558,337	603,344
Pupil transportation	153,560	152,256
Central	1,281,400	938,121
Operations of non-instructional services:		
Other non-instructional services	82,354	214,299
Food service operations	39,694	56,687
Extracurricular activities	2,233	1,335
Interest and fiscal charges	122,920	123,071
Total expenses	<u>20,001,012</u>	<u>19,021,565</u>
Change in net position	(1,308,942)	(288,749)
Net position at beginning of year (restated)	<u>606,218</u>	<u>894,967</u>
Net position (deficit) at end of year	<u>\$ (702,724)</u>	<u>\$ 606,218</u>

Governmental Activities

Net position of the ESC's governmental activities decreased \$1,308,942. Total governmental expenses of \$20,001,012 were offset by program revenues of \$15,614,467 and general revenues of \$3,077,603. Program revenues supported 78.07% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from contract services and charges for services. These revenue sources represent 70.26% of total governmental revenue.

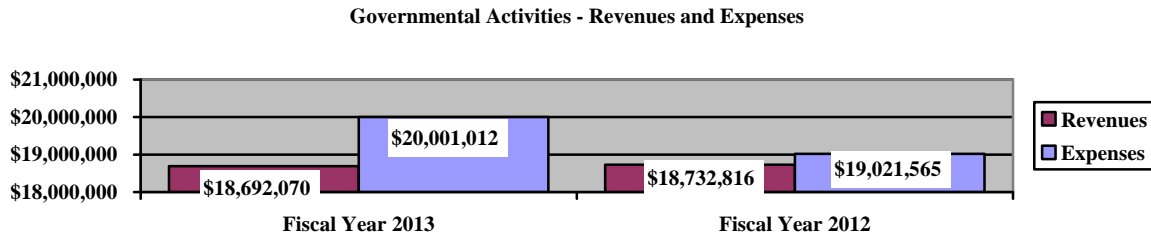
The largest expense of the ESC is for support services. Support services expenses totaled \$13,006,128 or 65.03% of total governmental expenses for fiscal 2013. The significant increase in expenditures from the prior year can be attributed to the hiring of approximately 37 additional employees, a 2% cost of living allowance for all employees and several new programs being added including an education program with the Marion County Juvenile Detention Center. These newly added programs were implemented in fiscal year 2013 but have not yet begun to make a profit. The new community schools required a large investment of personnel, including a director, treasurer and account

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
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(Continued)**

manager. These costs were recognized in fiscal year; however, the revenue for these services will not begin until the new schools open in fiscal year 2014.

The graph below presents the ESC's governmental activities revenues and expenses for fiscal year 2013 and 2012.



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

	Governmental Activities			
	Total Cost of Services 2013	Net Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2012
Program expenses				
Instruction:				
Regular	\$ 1,549,449	\$ 324,536	\$ 1,196,344	\$ 261,521
Special	5,114,018	1,571,172	4,675,441	1,335,671
Other	84,216	84,216	17,392	17,392
Support services:				
Pupil	4,093,415	1,270,335	4,535,131	1,319,221
Instructional staff	3,940,363	(317,663)	3,952,256	(544,876)
Board of education	67,357	67,357	100,267	100,267
Administration	1,957,655	319,627	1,576,602	195,361
Fiscal	791,165	172,206	681,216	117,542
Business	162,876	162,876	197,803	197,803
Operations and maintenance	558,337	90,488	603,344	105,422
Pupil transportation	153,560	133,898	152,256	133,558
Central	1,281,400	307,546	938,121	232,283
Operations of non-instructional services:				
Other non-instructional services	82,354	78,262	214,299	214,299
Food service operations	39,694	(1,728)	56,687	290
Extracurricular activities	2,233	497	1,335	(1,283)
Interest and fiscal charges	122,920	122,920	123,071	123,071
Total expenses	\$ 20,001,012	\$ 4,386,545	\$ 19,021,565	\$ 3,807,542

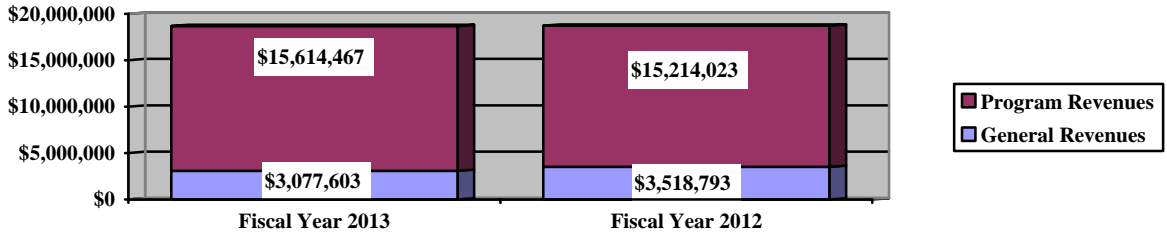
For all governmental activities, program revenue support is 78.07%. The primary support for the ESC is contracted fees for services provided to other districts.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)**

The graph below presents the ESC's governmental activities revenues for fiscal year 2013 and 2012.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance deficit of \$662,749, which is lower than last year's total balance of \$452,334. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and 2012.

	Fund Balance (deficit) <u>June 30, 2013</u>	Fund Balance <u>June 30, 2012</u>	Increase/ (Decrease)	Percentage <u>Change</u>
General	\$ (731,340)	\$ 403,903	\$ (1,135,243)	(281.07) %
Other Governmental	<u>68,591</u>	<u>48,431</u>	<u>20,160</u>	41.63 %
Total	<u>\$ (662,749)</u>	<u>\$ 452,334</u>	<u>\$ (1,115,083)</u>	(246.52) %

General Fund

The ESC's general fund balance decreased by \$1,135,243. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

The increase in tuition revenue of \$1,436,240 and the decrease in contract services of \$1,071,082 is a result of a change in the billing process by the ESC. During fiscal year 2013, the ESC billed more programs through foundation deduct instead of sending out monthly bills. Other services were also moved from contract service to foundation deduct to simplify the billing process and improve cash flow. The decrease in other revenues is primarily due to a decrease in the amount of miscellaneous receipts received in the fiscal year.

The increase in instruction expenditures during the fiscal year is a result of the several factors. Along with all employees receiving a 2% cost of living allowance, the ESC hired approximately 37 additional employees to fill a variety of positions, such as teachers and aides, for new programs. These programs include an education program with the Marion County Juvenile Detention Center.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
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(Continued)**

	2013 <u>Amount</u>	2012 <u>Amount</u>	Increase/ <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Tuition	\$ 8,452,899	\$ 7,016,659	\$ 1,436,240	20.47 %
Earnings on investments	1,329	1,410	(81)	(5.74) %
Contract services	3,996,058	5,067,140	(1,071,082)	(21.14) %
Other revenues	853,394	1,047,533	(194,139)	(18.53) %
Intergovernmental	<u>2,910,970</u>	<u>3,136,282</u>	<u>(225,312)</u>	(7.18) %
Total	<u>\$ 16,214,650</u>	<u>\$ 16,269,024</u>	<u>\$ (54,374)</u>	(0.33) %
<u>Expenditures</u>				
Instruction	\$ 6,350,312	\$ 5,695,608	\$ 654,704	11.49 %
Support services	10,667,682	10,488,855	178,827	1.70 %
Non-instructional services	78,745	213,759	(135,014)	(63.16) %
Facilities acquisition and construction	<u>-</u>	<u>80,915</u>	<u>(80,915)</u>	(100.00) %
Total	<u>\$ 17,096,739</u>	<u>\$ 16,479,137</u>	<u>\$ 617,602</u>	3.75 %

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the ESC had \$4,023,099 invested in land, buildings and improvements, furniture and equipment and software. This entire amount is reported in governmental activities. The following table shows June 30, 2013 balances compared to June 30, 2012.

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

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Land	\$ 148,850	\$ 148,850
Building and improvements	3,592,799	3,677,313
Furniture and equipment	265,060	309,931
Software	<u>16,390</u>	<u>27,316</u>
Total	<u>\$ 4,023,099</u>	<u>\$ 4,163,410</u>

The overall decrease in capital assets of \$140,311 is due to depreciation of \$204,272 and disposals of \$8,165 (net of accumulated depreciation) exceeding capital outlays of \$72,126 in the fiscal year.

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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Debt Administration

At June 30, 2013, the ESC had a \$3,405,000 promissory note outstanding. Of this amount, \$130,000 is due in one year with the remaining amount of \$3,275,000 is due within more than one year. The following table summarizes the promissory note outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>
Promissory note	\$ 3,405,000	\$ 3,530,000
Total	<u>\$ 3,405,000</u>	<u>\$ 3,530,000</u>

See Note 8 to the basic financial statements for further detail on the ESC's debt administration.

Current Financial Related Activities

Fiscal year 2013 continues to be a time in which governments are in major transition in the State of Ohio. All forms of government will need to collaborate for improved programs and services. ESCs have always played a major role in partnering for shared services. As part of cost sharing initiatives, the ESC along with several members of NCORcog applied for and received \$500,000 zero interest loan through the Ohio Department of Development for technology consolidation. The project goal is to consolidate public information technology investments and enhance data security and performance. Loan repayment is intended to be made from savings achieved from the project. While there are certainly challenges for all Ohio governments, the necessity to work together for solutions is more apparent than ever. Time will tell what changes this will bring, but regardless of what changes may occur, we all need to collaborate for improved programs and services in Ohio.

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

Since fiscal year 1994 there have been no increases in funding from the State. In fiscal year 2008, the ESC was notified by the Ohio Department of Education of a reduction of 9.62% in the state per-pupil annual funding. At the end of fiscal year 2011, the ESC was informed of an additional 10% cut in the state funding for fiscal year 2012 and an additional 15% reduction in fiscal year 2013. The continual reductions in state funding require the ESC to be innovative in searching for new revenue sources and cost savings strategies.

In order to generate additional revenues, the ESC sponsored nineteen new community schools bringing the total sponsorship to twenty-four schools. These schools are located in Akron, Cleveland, Columbus, Freeport, Mansfield, Tiffin, and Toledo. The sponsorship of the community schools provides for a 3 percent sponsorship fee for oversight and monitoring, as well as, a 5 percent administrative fee for contracted services.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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Over the last seven years, the ESC has seen tremendous growth and excitement. Despite a rough economy, the ESC continues to grow by providing more services, programs and employment on behalf of the schools we serve. These efforts allow us to continue to keep our cost stable for the 34 school districts that we serve.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Tina Peyton, Treasurer, North Central Ohio Educational Service Center, 928 W. Market St, Suite A, Tiffin, Ohio 44883-2529.

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

STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 955,990
Receivables:	
Intergovernmental	431,432
Prepayments	37,148
Capital assets:	
Nondepreciable capital assets	148,850
Depreciable capital assets, net.	3,874,249
Capital assets, net	4,023,099
Total assets.	5,447,669
 Liabilities:	
Accounts payable.	193,855
Accrued wages and benefits payable	1,429,869
Pension obligation payable.	245,861
Intergovernmental payable	74,520
Accrued interest payable	4,789
Long-term liabilities:	
Due within one year.	222,884
Due in more than one year.	3,978,615
Total liabilities	6,150,393
 Net position:	
Net investment in capital assets	618,099
Restricted for:	
Locally funded programs	10,724
Federally funded programs	9,459
Other purposes	8,142
Unrestricted (deficit)	(1,349,148)
Total net position (deficit)	\$ (702,724)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 1,549,449	\$ 1,005,863	\$ 219,050	\$ (324,536)
Special	5,114,018	3,504,118	38,728	(1,571,172)
Other	84,216	-	-	(84,216)
Support services:				
Pupil	4,093,415	2,798,216	24,864	(1,270,335)
Instructional staff	3,940,363	2,699,431	1,558,595	317,663
Board of education	67,357	-	-	(67,357)
Administration	1,957,655	1,341,458	296,570	(319,627)
Fiscal	791,165	540,157	78,802	(172,206)
Business	162,876	-	-	(162,876)
Operations and maintenance	558,337	386,230	81,619	(90,488)
Pupil transportation	153,560	16	19,646	(133,898)
Central	1,281,400	849,964	123,890	(307,546)
Operation of non-instructional services:				
Other non-instructional services	82,354	750	3,342	(78,262)
Food service operations	39,694	5,734	35,688	1,728
Extracurricular activities	2,233	318	1,418	(497)
Interest and fiscal charges	122,920	-	-	(122,920)
Total governmental activities	<u>\$ 20,001,012</u>	<u>\$ 13,132,255</u>	<u>\$ 2,482,212</u>	<u>(4,386,545)</u>
General revenues:				
Grants and entitlements not restricted to specific programs				
				2,923,657
				1,329
				152,617
Total general revenues				<u>3,077,603</u>
Change in net position				(1,308,942)
Net position at beginning of year (restated)				<u>606,218</u>
Net position (deficit) at end of year				<u><u>\$ (702,724)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 834,579	\$ 121,411	\$ 955,990
Receivables:			
Intergovernmental.	259,957	171,475	431,432
Prepayments.	29,143	8,005	37,148
Due from other funds	7,377	-	7,377
Total assets	\$ 1,131,056	\$ 300,891	\$ 1,431,947
Liabilities:			
Accounts payable	\$ 67,842	\$ 126,013	\$ 193,855
Accrued wages and benefits payable	1,371,090	58,779	1,429,869
Compensated absences payable	13,197	-	13,197
Intergovernmental payable	63,843	10,677	74,520
Pension obligation payable	231,979	13,882	245,861
Due to other funds	-	7,377	7,377
Total liabilities.	1,747,951	216,728	1,964,679
Deferred inflows of resources:			
Intergovernmental revenue not available.	114,445	15,572	130,017
Fund balances:			
Nonspendable:			
Prepays.	29,143	8,005	37,148
Restricted:			
Food service operations	-	8,142	8,142
Special education	-	14,009	14,009
Other purposes.	-	55,708	55,708
Assigned:			
Student instruction	3,873	-	3,873
Student and staff support.	168,774	-	168,774
Operation of non-instructional services	8,673	-	8,673
Unassigned (deficit)	(941,803)	(17,273)	(959,076)
Total fund balances (deficit)	(731,340)	68,591	(662,749)
Total liabilities, deferred inflows and fund balances	\$ 1,131,056	\$ 300,891	\$ 1,431,947

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

Total governmental fund balances		\$	(662,749)
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			4,023,099
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Tuition receivable	\$	12,806	
Classroom materials and fees receivable		160	
Contract service receivable		68,489	
Other receivable		33,075	
Intergovernmental receivable		15,487	
Total		130,017	130,017
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(4,789)
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Notes payable		(3,405,000)	
Compensated absences		(783,302)	
Total		(4,188,302)	(4,188,302)
Net position of governmental activities		\$	(702,724)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$ 8,452,899	\$ -	\$ 8,452,899
Earnings on investments	1,329	-	1,329
Charges for services	-	5,734	5,734
Extracurricular	-	1,360	1,360
Classroom materials and fees	36,038	-	36,038
Contributions and donations	12,687	575	13,262
Contract services	3,996,058	13,282	4,009,340
Other local revenues	804,669	69,386	874,055
Intergovernmental - state	2,910,970	519,134	3,430,104
Intergovernmental - federal	-	1,968,889	1,968,889
Total revenues	<u>16,214,650</u>	<u>2,578,360</u>	<u>18,793,010</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,204,959	235,997	1,440,956
Special	5,061,137	38,470	5,099,607
Other	84,216	-	84,216
Support services:			
Pupil	4,044,229	28,067	4,072,296
Instructional staff	2,306,257	1,610,922	3,917,179
Board of education	68,079	2,000	70,079
Administration	1,652,487	299,608	1,952,095
Fiscal	704,301	81,505	785,806
Business	159,702	-	159,702
Operations and maintenance	480,311	81,777	562,088
Pupil transportation	134,229	19,563	153,792
Central	1,118,087	118,159	1,236,246
Operation of non-instructional services:			
Other non-instructional services	78,745	5,263	84,008
Food service operations	-	39,694	39,694
Extracurricular activities	-	2,233	2,233
Debt service:			
Principal retirement	-	125,000	125,000
Interest and fiscal charges	-	123,096	123,096
Total expenditures	<u>17,096,739</u>	<u>2,811,354</u>	<u>19,908,093</u>
Excess of expenditures over revenues	<u>(882,089)</u>	<u>(232,994)</u>	<u>(1,115,083)</u>
Other financing sources (uses):			
Transfers in	-	253,154	253,154
Transfers (out)	<u>(253,154)</u>	<u>-</u>	<u>(253,154)</u>
Total other financing sources (uses)	<u>(253,154)</u>	<u>253,154</u>	<u>-</u>
Net change in fund balances	(1,135,243)	20,160	(1,115,083)
Fund balances at beginning of year	<u>403,903</u>	<u>48,431</u>	<u>452,334</u>
Fund balances (deficit) at end of year	<u>\$ (731,340)</u>	<u>\$ 68,591</u>	<u>\$ (662,749)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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, 2013

Net change in fund balances - total governmental funds	\$	(1,115,083)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 72,126	
Current year depreciation	<u>(204,272)</u>	
Total		(132,146)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(8,165)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		(100,940)
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:		
		125,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported in the statement of activities:		
Decrease in accrued interest payable		176
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(77,784)</u>
Change in net position of governmental activities	\$	<u>(1,308,942)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 1,067	\$ 3,152,265
Receivables:		
Intergovernmental	-	60,363
Prepayments	-	1,428
Total assets.	1,067	\$ 3,214,056
Liabilities:		
Accounts payable.	-	\$ 904
Pension obligation payable.	-	830
Intergovernmental payable	-	3,212,322
Total liabilities	-	\$ 3,214,056
Net position:		
Held in trust for scholarships	1,067	
Total net position.	\$ 1,067	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and contributions	\$ 240
Deductions:	
Scholarships awarded	674
Change in net position	(434)
Net position at beginning of year.	1,501
Net position at end of year	\$ 1,067

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The North Central Ohio Educational Service Center (the “ESC”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is organized under Section 3311.03 of the Ohio Revised Code. The ESC operates under an elected Board (9 members) and is an administrative entity providing supervision and various other services to the school districts located in Marion, Sandusky, Seneca, Union and Wyandot Counties. The Board is its own fiscal agent and issues its own financial statements. The ESC serves as fiscal agent for the Seneca County Family and Children First Council (the “Council”) with the rights and responsibilities established by Section 121.37 of the Ohio Revised Code. Council funds are maintained in a separate agency fund by the ESC.

The ESC provides regular and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services and facilities acquisitions. The ESC is staffed by 183 noncertified employees and 176 certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations, food service, and student related activities of the ESC.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

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

North Central Ohio Regional Council of Governments (NCORcog)

NCORcog is a legally separate body politic and corporate served by an eight-member Board of Directors that meets the definition of regional Council of governments under Chapter 167 of the Ohio Revised Code. NCORcog is a regional source for shared services. Cost savings achieved are designed to not only maintain existing essential services, but to enhance them as well.

The initial founding members and Board of Directors are North Central Ohio ESC, Seneca County, the City of Tiffin, Clinton Township, Village of New Riegel, North Central Academy, Tiffin City School District, and Seneca East Local School District. The Superintendent of North Central Ohio ESC serves as Chair of the Board. The Chair is a non-voting member and shall only vote in the event of a tie. The Treasurer of North Central Ohio ESC serves as ex-officio/advisor for fiscal matters and is also a non-voting member. Membership is voluntary pursuant to resolution, ordinance or other appropriate action. Application of membership shall be subject to approval by the Board of Directors. Each political subdivision shall be entitled to one vote.

North Central Ohio ESC serves as the fiscal agent. NCORcog issues a publicly available, stand-alone financial report. The report may be obtained by writing to the Treasurer of the North Central Ohio ESC, 928 W. Market Street, Tiffin, Ohio 44883.

North Central Ohio Trust Regional Council of Governments (NCOT)

NCOT is a legally separate body politic and corporate organized as a regional Council of governments under Chapter 167 of the Ohio Revised Code. NCOT is governed by an Assembly which consists of one representative from each participating school district (usually the superintendent or designee). The Assembly elects officers for one year terms to serve as the Board of Directors. The Assembly exercises control over the operation of the COG. All COG revenues are generated from charges for services. NCOT was formed for the purpose of providing and administering health insurance benefits for members governments.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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

In the case of NCOT, the ESC serves as fiscal agent and custodian but is not accountable; therefore the operations of NCOT has been excluded from the ESC's financial statements, but the funds held on behalf of NCOT are included in an agency fund.

PUBLIC ENTITY RISK POOLS

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

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

As fiscal agent, the ESC reports the Associations financial assets and liabilities for fiscal year 2013 are reported in the basic financial statements as an agency fund. To obtain financial information, write Tina Peyton, Treasurer, North Central Ohio Educational Service Center, 928 West Market Street, Suite A, Tiffin, Ohio 44883-2529. In January 2013, the ESC ended contract with the Association.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Other governmental funds of the ESC are used to account for specific revenue sources that are restricted or committed to expenditures for specified purposes.

PROPRIETARY FUND

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current deferred outflows of resources, current liabilities and current deferred inflows of resources 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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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

Financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

D. Basis of Accounting

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

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

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

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

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

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the ESC that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the ESC that is applicable to a future reporting period.

Revenues received in advance of the fiscal year for which they were intended to finance have been recorded as deferred inflows. Grants not received within the available period, and grants and entitlements received before the eligibility requirements are met are recorded as deferred inflows on the governmental fund financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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

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

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

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

E. Budgets

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

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

F. Cash and Investments

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

During fiscal year 2013, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2013.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$1,329, which includes \$947 assigned from other funds.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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

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

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

G. Capital Assets

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	50 years
Furniture and equipment	5 - 20 years
Software	5 years

H. Interfund Balances

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

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

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2013, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of service, including three with the ESC were considered expected to become eligible to retire in accordance with GASB Statement No. 16 (See Note 9 for detail on compensated absences).

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2013 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

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

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

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

L. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the ESC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for food service operations.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

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

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

M. Prepayments

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

On the fund financial statements, reported prepayments is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

N. Estimates

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

O. Interfund Activity

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type occurred during fiscal year 2013.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2013, the ESC has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65,

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

“Items Previously Reported as Assets and Liabilities”, and GASB Statement No. 66, “Technical Corrections-2012”.

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the ESC.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the ESC.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the ESC.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the ESC’s financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. For the ESC, the implementation of GASB Statement No. 65 has changed (1) the classification of certain items previously reported as liabilities to *deferred inflows of resources*, (2) the reporting of note issuance costs to an expense in the period incurred rather than amortized over the term of the related note issuance and (3) net assets of the ESC as previously reported to remove unamortized note issuance costs previously reported. The implementation of GASB Statement No. 65 had the following effect on net assets as previously reported:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	Governmental Activities
Net assets, June 30, 2012	\$ 671,269
Removal of unamortized bond issuance costs	(65,051)
Net position at July 1, 2012	\$ 606,218

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements.

B. Deficit Fund Balances

Fund balances at June 30, 2013 included the following individual fund deficits:

<u>Major funds</u>	<u>Deficit</u>
General fund	\$ 731,340
<u>Nonmajor funds</u>	<u>Deficit</u>
Education foundation	2,246
Race to the top	9,532
Title III, limited english proficiency	1,731
Title I	108
IDEA preschool grants for the handicapped	3,634
Improving teacher quality	22

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the ESC had \$100 in undeposited cash on hand which is included on the financial statements of the ESC as part of “equity in pooled cash and cash equivalents”.

B. Deposits with Financial Institutions

At June 30, 2013, the carrying amount of all ESC deposits was \$3,013,056. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2013, \$2,877,440 of the ESC’s bank balance of \$3,127,440 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

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

C. Investments

As of June 30, 2013, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> <u>6 months or less</u>
STAR Ohio	<u>\$ 1,096,166</u>	<u>\$ 1,096,166</u>

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investment or collateral

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

securities that are in the possession of an outside party. The ESC's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2013:

STAR Ohio	\$ <u>1,096,166</u>	<u>100%</u>
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D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,013,056
Investments	1,096,166
Cash on hand	<u>100</u>
Total	<u>\$ 4,109,322</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 955,990
Private-purpose trust funds	1,067
Agency funds	<u>3,152,265</u>
Total	<u>\$ 4,109,322</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2013, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	
General fund	<u>\$ 253,154</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers between governmental funds are eliminated on the government-

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS (Continued)

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

- B.** Due from and to other funds at June 30, 2013 consisted of the following individual amounts, as reported in the fund financial statements:

<u>Due to general fund from:</u>	<u>Amount</u>
Nonmajor governmental funds	<u>\$ 7,377</u>

The purpose of this amount due from and to other funds is to cover negative cash balances in nonmajor special revenue funds. Effective April 1, 2007, the ESC may maintain negative cash balances if two criteria are met: (1) the general fund must have available and unencumbered funds to cover the negative amounts; and (2) a reimbursement request must have been submitted by the fiscal year-end. The ESC has met these two requirements. This amount will be repaid once the anticipated revenues are received. Amounts due from and to other funds between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2013 consisted of intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. The receivables reported on the statement of net position follows:

Governmental activities:

Intergovernmental	<u>\$ 431,432</u>
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Intergovernmental receivables are expected to be collected within the subsequent year.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 148,850	\$ -	\$ -	\$ 148,850
Total capital assets, not being depreciated	<u>148,850</u>	<u>-</u>	<u>-</u>	<u>148,850</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	3,759,835	-	(6,857)	3,752,978
Furniture and equipment	913,254	72,126	(15,797)	969,583
Software	54,631	-	-	54,631
Total capital assets, being depreciated	<u>4,727,720</u>	<u>72,126</u>	<u>(22,654)</u>	<u>4,777,192</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(82,522)	(77,657)	-	(160,179)
Furniture and equipment	(603,323)	(115,689)	14,489	(704,523)
Software	(27,315)	(10,926)	-	(38,241)
Total accumulated depreciation	<u>(713,160)</u>	<u>(204,272)</u>	<u>14,489</u>	<u>(902,943)</u>
Governmental activities capital assets, net	<u>\$ 4,163,410</u>	<u>\$ (132,146)</u>	<u>\$ (8,165)</u>	<u>\$ 4,023,099</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 105,405
Special	3,943
<u>Support services:</u>	
Pupil	3,452
Instructional staff	8,699
Board of education	3,068
Administration	19,019
Fiscal	472
Operations and maintenance	13,017
Central	<u>47,197</u>
Total depreciation expense	<u>\$ 204,272</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 8 - LONG-TERM OBLIGATIONS

During fiscal year 2013, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/12</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/13</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Promissory Note - 3.55%	\$ 3,530,000	\$ -	\$ (125,000)	\$ 3,405,000	\$ 130,000
Compensated absences payable	<u>723,987</u>	<u>158,862</u>	<u>(86,350)</u>	<u>796,499</u>	<u>92,884</u>
Total long-term obligations, governmental activities	<u>\$ 4,253,987</u>	<u>\$ 158,862</u>	<u>\$ (211,350)</u>	<u>\$ 4,201,499</u>	<u>\$ 222,884</u>

On June 8, 2011, the ESC entered into a promissory note to provide financing for the acquisition of an administrative and educational services building. The note bears an interest rate of 3.55% and matures on December 1, 2031.

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

The following is a summary of the ESC's future debt service requirements to maturity for the promissory note:

Fiscal Year Ended	<u>Promissory Note</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 130,000	\$ 118,569	\$ 248,569
2015	135,000	113,866	248,866
2016	140,000	108,985	248,985
2017	145,000	103,926	248,926
2018	145,000	98,779	243,779
2019 - 2023	825,000	409,580	1,234,580
2024 - 2028	975,000	250,540	1,225,540
2029 - 2032	<u>910,000</u>	<u>66,032</u>	<u>976,032</u>
Total	<u>\$ 3,405,000</u>	<u>\$ 1,270,277</u>	<u>\$ 4,675,277</u>

NOTE 9 - COMPENSATED ABSENCES

Sick Leave:

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

Severance Pay:

At the time of retirement from the ESC, a severance amount calculated by a prescribed formula applied to the employee's unused sick leave and daily rate of pay at the time of retirement from the ESC is granted to

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 9 - COMPENSATED ABSENCES - (Continued)

employees in compliance with Ohio law. Upon payment of severance pay, the retiring employee's sick leave accumulation is reduced to zero.

Retirement

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

1. The individual retires from the ESC.
2. Retirement is defined as disability retirement or service retirement under any State or municipal retirement system in this State.
3. The individual must be eligible for disability or service retirement as of the last date of employment with the ESC.
4. The individual must prove acceptance into the retirement system within 120 days of his/her last day of employment by having received and cashed his/her first retirement check.
5. The individual must have not less than 10 years of service with this ESC, the state or its political subdivisions, or any combination thereof. The last 3 years of employment must be with the ESC.
6. The individual must sign for his/her severance check certifying that all eligibility criteria are met.
7. In order to receive severance pay, classified and certified staff shall have provided written notification of his/her intention to retire 90 days prior to the anticipated retirement date. Administrative staff is required to provide written notification by April 1st of the retirement year.

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

1. The employee's accrued, but unused sick leave will be multiplied by one-fourth.
2. The product will be multiplied by the per diem rate of pay at the time of retirement.

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

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

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

Upon retirement, employees are entitled to compensation at their current rate of pay for all unused vacation leave to their credit up to a maximum of their earned, but unused vacation leave for the current year.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

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

B. Employee Health Insurance

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

Each member school ESC and educational service center pays premiums to the Association for employee medical, dental, vision, and life insurance premiums. The Association is responsible for the management and operations of the program. Upon withdrawal, the member is responsible for the payment of all Association liabilities to its employees, dependents and designated beneficiaries accruing as a result of the withdrawal. Upon termination of the Association, all ESC's claims would be paid without regard to the ESC's account balance. The Association Board of Directors has the right to return monies to an existing member subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

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

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

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 11 - PENSION PLANS - (Continued)

beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$504,876, \$449,823 and \$448,645, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

B. State Teachers Retirement System of Ohio

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

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 11 - PENSION PLANS - (Continued)

are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1,097,398, \$1,030,252 and \$1,020,357, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$48,923 made by the ESC and \$34,945 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2013, certain members of the Board of Education have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

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

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012 and 2011 were \$77,004, \$95,458 and \$124,496, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$28,520, \$26,564 and \$28,871, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$84,415, \$79,250 and \$78,489, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 13 - STATE FUNDING

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

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM- the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$40.52 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. However, due to State funding cuts the ESC was only funded \$32.79 per ADM.

If additional funding is required and if a majority of the Boards of Education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$40.52 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating Boards approve or disapprove the apportionment. The districts to which the ESC provides services have agreed to pay \$6.50 per pupil to provide additional funding for services provided by the ESC.

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 15 - OTHER COMMITMENTS

The ESC utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the ESC's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 179,966
Other governmental	<u>66,819</u>
Total	<u>\$ 246,785</u>

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SENECA COUNTY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition	\$ 8,417,308	\$ 8,477,889	\$ 8,452,899	\$ (24,990)
Earnings on investments	1,489	1,500	1,329	(171)
Classroom materials and fees	34,948	35,200	39,071	3,871
Contributions and donations	20,022	20,166	11,045	(9,121)
Contract services.	4,704,104	4,737,960	4,091,842	(646,118)
Other local revenues	1,374,176	1,384,065	757,122	(626,943)
Intergovernmental - state	2,900,609	2,921,485	2,910,970	(10,515)
Total revenues	<u>17,452,656</u>	<u>17,578,265</u>	<u>16,264,278</u>	<u>(1,313,987)</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,322,933	1,390,581	1,188,058	202,523
Special.	5,178,122	5,392,304	5,005,053	387,251
Other.	64,560	91,801	77,676	14,125
Support services:				
Pupil.	4,667,711	4,387,875	4,140,337	247,538
Instructional staff	2,633,629	2,478,042	2,298,389	179,653
Board of education	105,783	91,356	81,101	10,255
Administration.	1,683,281	1,827,238	1,674,322	152,916
Fiscal	865,749	826,925	740,390	86,535
Business	214,701	195,838	166,255	29,583
Operations and maintenance.	522,966	539,525	489,040	50,485
Pupil transportation	164,792	150,977	137,550	13,427
Central.	1,292,548	1,264,160	1,115,783	148,377
Other operation of non-instructional services	95,764	98,524	98,440	84
Total expenditures	<u>18,812,539</u>	<u>18,735,146</u>	<u>17,212,394</u>	<u>1,522,752</u>
Excess of expenditures over revenues	<u>(1,359,883)</u>	<u>(1,156,881)</u>	<u>(948,116)</u>	<u>208,765</u>
Other financing sources (uses):				
Refund of prior year's expenditures	60,564	61,000	7,450	(53,550)
Transfers in	2,474	2,492	-	(2,492)
Transfers (out).	<u>(27,938)</u>	<u>(297,825)</u>	<u>(292,923)</u>	<u>4,902</u>
Total other financing sources (uses)	<u>35,100</u>	<u>(234,333)</u>	<u>(285,473)</u>	<u>(51,140)</u>
Net change in fund balance	(1,324,783)	(1,391,214)	(1,233,589)	157,625
Fund balance at beginning of year	1,631,115	1,631,115	1,631,115	-
Prior year encumbrances appropriated	190,911	190,911	190,911	-
Fund balance at end of year	<u>\$ 497,243</u>	<u>\$ 430,812</u>	<u>\$ 588,437</u>	<u>\$ 157,625</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**NOTE TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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

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

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (1,233,589)
Net adjustment for revenue accruals	(55,239)
Net adjustment for expenditure accruals	(136,671)
Net adjustment for other sources/uses	32,319
Funds budgeted elsewhere	5,772
Adjustment for encumbrances	252,165
GAAP basis	\$ (1,135,243)

Certain funds that are budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund, the employee benefits-self insurance fund and the termination benefits fund.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**FEDERAL AWARDS RECEIPT AND EXPENDITURE SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<u>Nutrition Cluster:</u>			
National Breakfast Program	10.553	\$ 1,520	\$ 1,520
National School Lunch Program	10.555	25,451	25,451
		26,971	26,971
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
<u>Special Education Cluster:</u>			
Special Education Grants to States	84.027	1,248,231	1,243,114
Special Education Preschool Grants To States	84.173	186,956	179,409
Total Special Education Cluster		1,435,187	1,422,523
 <u>Title I</u>			
Title I Grants To Local Educational Agencies	84.010	52,579	52,579
Improving Teacher Quality State Grants	84.367	75,640	83,669
English Language Acquisition State Grants	84.365	39,070	36,392
ARRA - Race to the Top	84.395A	384,916	352,466
State Personnel Development	84.323	39,687	39,763
 UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Health:</i>			
<u>Early Intervention Services (IDEA)</u>			
Help Me Grow	84.181	84,095	84,095
Total U.S. Department of Education		2,111,175	2,071,487
 Total Federal Assistance		\$ 2,138,146	\$ 2,098,458

The accompanying notes are an integral part of this schedule.

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

**NOTES TO THE FEDERAL AWARDS RECEIPT AND EXPENDITURE SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

The ESC commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the ESC assumes it expends federal monies first.

NOTE C – MATCHING REQUIREMENTS

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



Dave Yost • Auditor of State

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

North Central Ohio Educational Service Center
Seneca County
928 West Market Street
Tiffin, Ohio 44883-2529

To the Board of Governors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated February 11, 2014, wherein we noted the ESC implemented the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the ESC's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the ESC's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the ESC's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the ESC's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the ESC's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the ESC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Dave Yost
Auditor of State

Columbus, Ohio

February 11, 2014



Dave Yost • Auditor of State

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

North Central Ohio Educational Service Center
Seneca County
928 West Market Street
Tiffin, Ohio 44883-2529

To the Board of Governors:

Report on Compliance for Each Major Federal Program

We have audited North Central Ohio Educational Service Center, Seneca County, Ohio's (the ESC) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the ESC's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the ESC's major federal programs.

Management's Responsibility

The ESC's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the ESC's compliance for each of the ESC's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the ESC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the ESC's major programs. However, our audit does not provide a legal determination of the ESC's compliance.

Opinion on Each Major Federal Program

In our opinion, North Central Ohio Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

www.ohioauditor.gov

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

February 11, 2014

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(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	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: CFDA # 84.027 Special Education Grants to States and 84.173 – Special Education Preschool Grants to States CFDA # 84.395 ARRA- Race to the Top
(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

NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 25, 2014**