

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

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2009**



**Mary Taylor, CPA**  
Auditor of State



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

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	12
Statement of Activities .....	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Fiduciary Net Assets - Fiduciary Funds .....	18
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund.....	19
Notes to the Financial Statements .....	20
Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund .....	41
Note to the Supplementary Information .....	42
Schedule of Federal Awards Receipts and Expenditures.....	43
Notes to the Schedule of Federal Awards Receipts and Expenditures .....	44
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> . ....	45
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i> .....	47
Schedule of Findings.....	49

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the North Central Ohio Educational Service Center, Seneca County, Ohio, as of June 30, 2009, and the respective changes in financial position there-of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2010, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the ESC's basic financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual provides additional information and is not a required part of the basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual and the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

January 13, 2010

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
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, 2009. 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 2009 are as follows:

- In total, net assets of governmental activities increased \$491,892 which represents a 539.01% increase from 2008.
- General revenues accounted for \$3,499,224 in revenue or 20.54% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$13,534,089 or 79.46% of total revenues of \$17,033,313.
- The ESC had \$16,541,421 in expenses related to governmental activities; \$13,534,089 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 \$3,499,224 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$14,224,867 in revenues and \$13,678,518 in expenditures and other financing uses. During fiscal year 2009, the general fund's fund balance increased \$546,349 from a deficit of \$33,890 to a balance of \$512,459.

**Using these Basic Financial Statements**

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

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

**Reporting the ESC as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2009?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of

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

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

accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**Reporting the ESC's Most Significant Funds**

***Fund Financial Statements***

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

***Governmental Funds***

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

***Reporting the ESC's Fiduciary Responsibilities***

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

***Notes to the Basic Financial Statements***

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

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

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

**The ESC as a Whole**

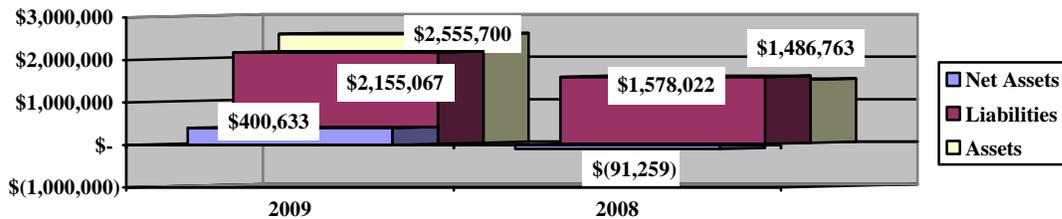
Recall that the statement of net assets provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net assets for 2009 and 2008.

	<b>Net Assets</b>	
	Governmental Activities 2009	Governmental Activities 2008
<b><u>Assets</u></b>		
Current assets	\$ 2,335,346	\$ 1,264,702
Capital assets, net	<u>220,354</u>	<u>222,061</u>
Total assets	<u>2,555,700</u>	<u>1,486,763</u>
<b><u>Liabilities</u></b>		
Current liabilities	1,583,945	1,093,621
Long-term liabilities	<u>571,122</u>	<u>484,401</u>
Total liabilities	<u>2,155,067</u>	<u>1,578,022</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	220,354	222,061
Restricted	200,382	146,700
Unrestricted (deficit)	<u>(20,103)</u>	<u>(460,020)</u>
Total net assets (deficit)	<u>\$ 400,633</u>	<u>\$ (91,259)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the ESC's assets exceeded liabilities by \$400,633. Of this total, \$200,382 is restricted in use leaving the ESC with unrestricted net assets of a deficit of \$20,103.

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2009 and 2008. For fiscal year 2008, the intergovernmental pass-thru expense line has been eliminated and allocated back to its original function expense codes to be consistent with fiscal year 2009.

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

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

	<b>Change in Net Assets</b>	
	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 10,734,808	\$ 7,203,626
Operating grants and contributions	2,799,281	1,924,068
General revenues:		
Grants and entitlements, unrestricted	3,201,902	2,320,538
Investment earnings	13,905	35,351
Other	<u>283,417</u>	<u>715,824</u>
Total revenues	<u>17,033,313</u>	<u>12,199,407</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	605,980	373,882
Special	5,130,860	3,559,059
Support services:		
Pupil	3,358,773	2,281,484
Instructional staff	3,570,424	2,963,303
Board of education	51,627	55,771
Administration	1,818,242	1,404,132
Fiscal	597,552	533,466
Business	133,338	76,115
Operations and maintenance	491,855	462,324
Pupil transportation	126,899	35,065
Central	548,198	451,744
Operations of non-instructional services:		
Food service operations	23,082	20,971
Other non-instructional services	<u>84,591</u>	<u>64,386</u>
Total expenses	<u>16,541,421</u>	<u>12,281,702</u>
Change in net assets	491,892	(82,295)
Net assets (deficit) at beginning of year	<u>(91,259)</u>	<u>(8,964)</u>
Net assets (deficit) at end of year	<u>\$ 400,633</u>	<u>\$ (91,259)</u>

**Governmental Activities**

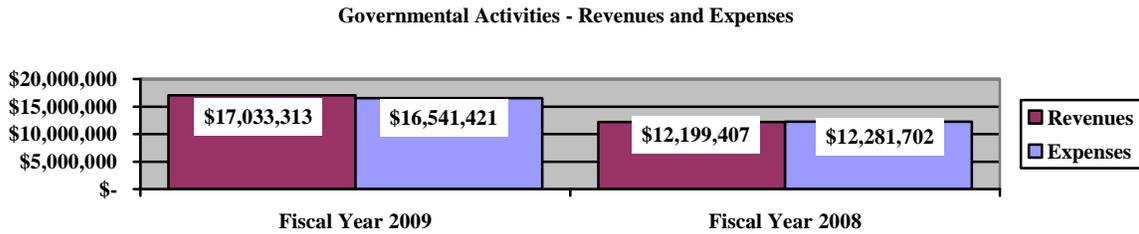
Net assets of the ESC's governmental activities increased \$491,892. Total governmental expenses of \$16,541,421 were offset by program revenues of \$13,534,089 and general revenues of \$3,499,224. Program revenues supported 81.82% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from contract services and charges for services. These revenue sources represent 63.02% of total governmental revenue.

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

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

The largest expense of the ESC is for support services. Support services expenses totaled \$10,696,908 or 64.67% of total governmental expenses for fiscal 2009.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2009 and 2008.



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. For fiscal year 2008, the intergovernmental pass-thru expense line has been eliminated and allocated back to its original function expense codes to be consistent with fiscal year 2009.

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

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

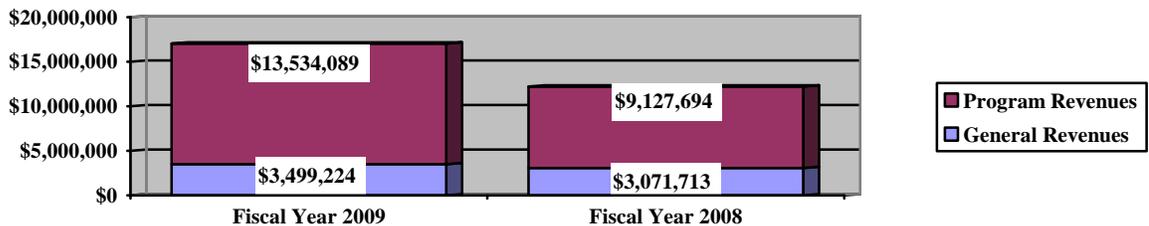
**Governmental Activities**

	Total Cost of Services 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
<b>Program expenses</b>				
Instruction:				
Regular	\$ 605,980	\$ 39,993	\$ 373,882	\$ 263,680
Special	5,130,860	1,083,022	3,559,059	646,509
Support services:				
Pupil	3,358,773	693,880	2,281,484	417,933
Instructional staff	3,570,424	379,042	2,963,303	273,821
Board of education	51,627	51,627	55,771	55,771
Administration	1,818,242	186,928	1,404,132	94,575
Fiscal	597,552	99,718	533,466	438,792
Business	133,338	98,022	76,115	76,115
Operations and maintenance	491,855	87,448	462,324	396,709
Pupil transportation	126,899	74,267	35,065	19,056
Central	548,198	126,679	451,744	409,129
Operations of non-instructional services:				
Food service operations	23,082	2,115	20,971	(2,468)
Other non-instructional services	84,591	84,591	64,386	64,386
<b>Total expenses</b>	<b>\$ 16,541,421</b>	<b>\$ 3,007,332</b>	<b>\$ 12,281,702</b>	<b>\$ 3,154,008</b>

For all governmental activities, program revenue support is 81.82%. The primary support for the ESC is contracted fees for services provided to other districts.

The graph below presents the ESC's governmental activities revenue for fiscal year 2009 and 2008.

**Governmental Activities - General and Program Revenues**



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

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

**The ESC's Funds**

The ESC's governmental funds reported a combined fund balance of \$691,795, which is higher than last year's total of \$115,603. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2009 and 2008.

	Fund Balance June 30, 2009	Fund Balance (deficit) June 30, 2008	Increase	Percentage Change
General	\$ 512,459	\$ (33,890)	\$ 546,349	1,612.12 %
Other Governmental	<u>179,336</u>	<u>149,493</u>	<u>29,843</u>	19.96 %
Total	<u>\$ 691,795</u>	<u>\$ 115,603</u>	<u>\$ 576,192</u>	498.42 %

**General Fund**

The ESC's general fund balance increased by \$546,349. The increase in fund balance can be attributed to the ESC providing new services, servicing new school districts, and expanding existing programs. Revenues exceeded expenditures in fiscal year 2009 by \$554,997. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2009 Amount	2008 Amount	Increase (Decrease)	Percentage Change
<b><u>Revenues</u></b>				
Contract services	\$ 3,956,242	\$ 3,352,889	\$ 603,353	18.00 %
Earnings on investments	13,905	35,351	(21,446)	(60.67) %
Tuition	6,104,965	3,567,093	2,537,872	71.15 %
Intergovernmental	3,201,902	2,320,538	881,364	37.98 %
Other revenues	<u>947,853</u>	<u>770,655</u>	<u>177,198</u>	22.99 %
Total	<u>\$ 14,224,867</u>	<u>\$10,046,526</u>	<u>\$ 4,178,341</u>	41.59 %
<b><u>Expenditures</u></b>				
Instruction	\$ 5,542,618	\$ 3,817,865	\$ 1,724,753	45.18 %
Support services	8,042,661	6,260,749	1,781,912	28.46 %
Non-instructional services	<u>84,591</u>	<u>64,386</u>	<u>20,205</u>	31.38 %
Total	<u>\$ 13,669,870</u>	<u>\$10,143,000</u>	<u>\$ 3,526,870</u>	34.77 %

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

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

The increase in contract services and tuition revenue of \$603,353 and \$2,537,872 can be attributed to additional services provided to Fremont, Gibsonburg, and Clyde-Green Springs Districts. From fiscal year 2008, contracts with these districts, as well as other consortium districts, increased by \$2,591,097. In addition, the ESC provided new services such as adapted physical education and alternative education (both long and short term) as well as expanding other programs such as educational consultants, LEARNco, physical therapy, occupational therapy, psychology, literacy, and technology. Intergovernmental revenue increased 37.98% primarily due to the ESC receiving additional State funding for Fremont CSD, Gibsonburg EVSD, and Clyde-Green Springs Districts that joined the consortium in August 2008. Earnings on investments decreased mainly due to lower interest rates paid on investments. Instructional and support services expenditures increased \$1,724,753 and \$1,781,912 from fiscal year 2008. These increases can be attributed to the employment of additional contracted personnel for services listed above.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2009, the ESC had \$220,354 invested in furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2009 balances compared to 2008:

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

	Governmental Activities	
	2009	2008
Furniture and equipment	\$ 220,354	\$ 222,061

The overall decrease in capital assets of \$1,707 is due to depreciation of \$67,699 and disposals net of accumulated depreciation of \$21,670 exceeding capital outlays of \$87,662 in the fiscal year.

***Debt Administration***

At June 30, 2009, the ESC had no debt outstanding.

**Current Financial Related Activities**

Fiscal year 2009, much like previous fiscal years, brought major changes in personnel and programs to the educational service center (ESC). The most significant change came with the dissolution of the Sandusky County Educational Service Center (SCESC). Through a series of discussions and meetings a significant amount of business was transferred to the ESC. Fremont City Schools, Clyde-Green Spring Exempted Village Schools, and Gibsonburg Exempted Village School all agreed to have the ESC be the fiscal agent for SB140 monies. In addition to the handling of the 140 monies, approximately eight early childhood units were transferred. Further, due to the increase of services needed for the three districts, the ESC opened a new office in Fremont and employed more than 125 people. This generated significant revenues as our need for the capacity to serve also increased. Further, several grants were also transferred to the ESC such as Parent Mentor grant and an Alternate Learning Challenge (ALC) grant.

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

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

In addition, new services, such as, hearing, vision, adapted physical education, and bus aides. Services were also expanded for gifted, multiple handicapped, paraprofessionals, preschool, psychology, and speech. These new and expanded services along with additional SB140 monies generated approximately \$4 million in revenues while expenditures for instruction and support services increased \$3 million.

In previous years the ESC received funds from the Community Alternative Funding System (CAFS) program. During fiscal years 2008 and 2007, no funds were received which resulted in reduction of Federal revenue. The Ohio Department of Education and the Ohio Department of Job and Family Services have developed, submitted and received approval of a plan that will allow school districts in Ohio to once again start receiving federal matching funds for services provided to Medicaid eligible students. The new Ohio Medicaid School Program (OMSP) will permit certain local educational agencies to receive federal matching Medicaid funds for services provided by licensed practitioners to Medicaid-eligible students. Several changes have been incorporated in the plan that will significantly impact educational service centers in Ohio. The most significant factor is educational service centers are no longer permitted to submit claims for direct reimbursement. Instead, ESCs may contract with districts to provide documentation collection and submission services to the district and invoice districts for the service. The ESC will not receive the full reimbursement as in the past. Invoicing the districts for services may result in ESCs receiving about 50% of the Medicaid reimbursement funds. Additionally, Medicaid has reduced the reimbursement rates for many services. The new rate is estimated to be about 60% of the reimbursement rate of other years. With this combination of factors, the ESC will experience a much reduced Medicaid funding source from years prior to July 1, 2005.

In fiscal 2008, the ESC was notified by the Ohio Department of Education of a reduction of 9.62% in the state per-pupil annual funding. The cut was based upon the district ADM counts as of the February 2008 number two foundation payment. In May 2008, the NCOESC Board of Governors voted to increase the agency fee charged on all program costs from 4% to 5% effective July 1, 2008. The estimated additional revenue to be generated was considerably short of the current fiscal year revenue loss. Additionally, the ESC allocated a portion of the facilities rent back through program costs. As a result, the additional 1% and the facilities rent allocation replaced most of the fiscal year 2009 State funding cut. This direct cut in State foundation revenue continues.

Finally, the ESC became the sponsor of a community school called the North Central Academy (NCA) on July 1, 2009. The North Central Academy serves schools in Seneca, Wyandot and Sandusky County. Once again, our capacity increased and the growth of the ESC continues.

**Contacting the ESC's Financial Management**

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

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

STATEMENT OF NET ASSETS  
JUNE 30, 2009

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 1,791,757
Cash with fiscal agent. . . . .	37,449
Receivables:	
Intergovernmental . . . . .	472,657
Prepayments . . . . .	33,483
Capital assets:	
Depreciable capital assets, net . . . . .	<u>220,354</u>
 Total assets. . . . .	 <u>2,555,700</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	80,898
Accrued wages and benefits . . . . .	1,122,346
Pension obligation payable. . . . .	200,122
Intergovernmental payable . . . . .	179,979
Unearned revenue . . . . .	600
Long-term liabilities:	
Due within one year. . . . .	98,742
Due within more than one year . . . . .	<u>472,380</u>
 Total liabilities . . . . .	 <u>2,155,067</u>
<b>Net Assets:</b>	
Invested in capital assets. . . . .	220,354
Restricted for:	
Locally funded programs . . . . .	107,174
State funded programs. . . . .	3,025
Federally funded programs. . . . .	88,639
Other purposes . . . . .	1,544
Unrestricted (deficit) . . . . .	<u>(20,103)</u>
 Total net assets . . . . .	 <u>\$ 400,633</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 605,980	\$ 428,249	\$ 137,738	\$ (39,993)
Special . . . . .	5,130,860	4,011,702	36,136	(1,083,022)
Support services:				
Pupil . . . . .	3,358,773	2,642,991	21,902	(693,880)
Instructional staff . . . . .	3,570,424	1,668,268	1,523,114	(379,042)
Board of education . . . . .	51,627			(51,627)
Administration . . . . .	1,818,242	837,042	794,272	(186,928)
Fiscal . . . . .	597,552	403,480	94,354	(99,718)
Business . . . . .	133,338		35,316	(98,022)
Operations and maintenance . . . . .	491,855	338,505	65,902	(87,448)
Pupil transportation . . . . .	126,899		52,632	(74,267)
Central . . . . .	548,198	394,212	27,307	(126,679)
Operation of non-instructional services:				
Food service operations . . . . .	23,082	10,359	10,608	(2,115)
Other non-instructional services . . . . .	84,591			(84,591)
<b>Total governmental activities . . . . .</b>	<b>\$ 16,541,421</b>	<b>\$ 10,734,808</b>	<b>\$ 2,799,281</b>	<b>(3,007,332)</b>
<b>General Revenues:</b>				
Grants and entitlements not restricted to specific programs . . . . .				3,201,902
Investment earnings . . . . .				13,905
Miscellaneous . . . . .				283,417
Total general revenues . . . . .				<u>3,499,224</u>
Change in net assets . . . . .				491,892
<b>Net assets (deficit) at beginning of year . . . . .</b>				<u>(91,259)</u>
<b>Net assets at end of year . . . . .</b>				<u><u>\$ 400,633</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 1,640,753	\$ 151,004	\$ 1,791,757
Cash with fiscal agent . . . . .	37,449		37,449
Receivables:			
Intergovernmental . . . . .	225,780	246,877	472,657
Interfund loans . . . . .	951		951
Prepayments . . . . .	25,495	7,988	33,483
Total assets . . . . .	<u>\$ 1,930,428</u>	<u>\$ 405,869</u>	<u>\$ 2,336,297</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 36,746	\$ 44,152	\$ 80,898
Accrued wages and benefits . . . . .	1,099,076	23,270	1,122,346
Pension obligation payable . . . . .	193,939	6,183	200,122
Intergovernmental payable . . . . .	70,929	109,050	179,979
Interfund loans payable . . . . .		951	951
Deferred revenue . . . . .	16,679	42,927	59,606
Unearned revenue . . . . .	600		600
Total liabilities . . . . .	<u>1,417,969</u>	<u>226,533</u>	<u>1,644,502</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	15,600	64,811	80,411
Reserved for prepayments . . . . .	25,495	7,988	33,483
Unreserved, undesignated, reported in:			
General fund . . . . .	471,364		471,364
Special revenue funds . . . . .		106,537	106,537
Total fund balances . . . . .	<u>512,459</u>	<u>179,336</u>	<u>691,795</u>
Total liabilities and fund balances . . . . .	<u>\$ 1,930,428</u>	<u>\$ 405,869</u>	<u>\$ 2,336,297</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2009

<b>Total governmental fund balances</b>		\$	691,795
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			220,354
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Contract service receivable	\$	9,965	
Other receivable		6,714	
Intergovernmental receivable		<u>42,927</u>	
Total			59,606
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		<u>(571,122)</u>	
Total			<u>(571,122)</u>
<b>Net assets of governmental activities</b>		\$	<u><u>400,633</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Charges for services . . . . .		\$ 2,849	\$ 2,849
Earnings on investments. . . . .	\$ 13,905		13,905
Tuition. . . . .	6,104,965		6,104,965
Classroom materials and fees . . . . .	50,812		50,812
Contributions and donations . . . . .	8,459	11,457	19,916
Other local revenues. . . . .	888,582	64,380	952,962
Contract service revenue . . . . .	3,956,242	37,605	3,993,847
Intergovernmental - State. . . . .	3,163,800	1,086,874	4,250,674
Intergovernmental - Federal . . . . .	38,102	1,601,153	1,639,255
Total revenue . . . . .	<u>14,224,867</u>	<u>2,804,318</u>	<u>17,029,185</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	468,496	139,322	607,818
Special. . . . .	5,074,122	35,386	5,109,508
Support services:			
Pupil. . . . .	3,307,070	21,754	3,328,824
Instructional staff . . . . .	2,072,151	1,456,303	3,528,454
Board of education . . . . .	49,627	2,000	51,627
Administration. . . . .	1,029,858	798,814	1,828,672
Fiscal . . . . .	502,577	93,531	596,108
Business . . . . .	98,132	35,036	133,168
Operations and maintenance. . . . .	423,558	63,531	487,089
Pupil transportation . . . . .	74,467	52,432	126,899
Central. . . . .	485,221	61,932	547,153
Operation of non-instructional services:			
Food service operations . . . . .		23,082	23,082
Other non-instructional services. . . . .	84,591		84,591
Total expenditures . . . . .	<u>13,669,870</u>	<u>2,783,123</u>	<u>16,452,993</u>
Excess of revenues over expenditures . . . . .	<u>554,997</u>	<u>21,195</u>	<u>576,192</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .		8,648	8,648
Transfers (out). . . . .	(8,648)		(8,648)
Total other financing sources (uses) . . . . .	<u>(8,648)</u>	<u>8,648</u>	
Net change in fund balances . . . . .	546,349	29,843	576,192
<b>Fund balances (deficit) at beginning of year . . . . .</b>	<u>(33,890)</u>	<u>149,493</u>	<u>115,603</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 512,459</u>	<u>\$ 179,336</u>	<u>\$ 691,795</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**Net change in fund balances - total governmental funds** \$ 576,192

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

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

Capital asset additions	\$	87,662	
Current year depreciation		<u>(67,699)</u>	
 Total			 19,963

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (21,670)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 4,128

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. (86,721)

**Change in net assets of governmental activities** \$ 491,892

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2009

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$2,500	\$208,063
Prepayments. . . . .		\$2,825
Receivables:		
Intergovernmental . . . . .		\$13,874
Total assets. . . . .	\$2,500	\$224,762
<b>Liabilities:</b>		
Accounts payable. . . . .		\$7,386
Pension obligation payable . . . . .		\$1,772
Intergovernmental payable . . . . .		\$215,604
Total liabilities . . . . .		\$224,762
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	\$2,500	
Total net assets . . . . .	\$2,500	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Gifts and contributions . . . . .	\$ 7,037
Total additions . . . . .	7,037
<b>Deductions:</b>	
Scholarships awarded . . . . .	6,115
Change in net assets . . . . .	922
<b>Net assets at beginning of year . . . . .</b>	<b>1,578</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 2,500</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER**

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

The ESC provides regular and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services and facilities acquisitions. The ESC is staffed by 158 non-certified employees and 151 certified employees.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

Northern Ohio Educational Computer Association (NOECA)

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

Marion Area Partners in Education (the "Council")

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

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

*PUBLIC ENTITY RISK POOLS*

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

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

*PROPRIETARY FUND*

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

*FIDUCIARY FUNDS*

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

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

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

**D. Basis of Accounting**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

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

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

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

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

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

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

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

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

**E. Cash and Investments**

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

During fiscal year 2009, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2009.

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 2009 amounted to \$13,905, which includes \$3,468 assigned from other funds.

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

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

**F. Capital Assets**

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

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

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

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

**G. Interfund Balances**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

**H. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2009, 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, 2009 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

**I. Accrued Liabilities and Long-Term Obligations**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

**J. Fund Balance Reserves**

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

**K. Net Assets**

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

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

**L. Prepayments**

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

**M. Estimates**

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

**N. Interfund Activity**

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

**O. Extraordinary and Special Items**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2009.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

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

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

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

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

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

**B. Deficit Fund Balances**

Fund balances at June 30, 2009 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Education foundation	\$ 119
Teacher development	484
Alternative school	1,199
Title I	60

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

**A. Cash with Fiscal Agent**

The ESC had cash held by the Ohio Mid-Eastern Regional Education Service Agency, which included on the financial statements as "cash with fiscal agent". The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2009 was \$37,449.

**B. Deposits with Financial Institutions**

At June 30, 2009, the carrying amount of all ESC deposits was \$114,861. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2009, \$622,987 of the ESC's bank balance of \$872,987 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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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, 2009, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ <u>1,887,459</u>	\$ <u>1,887,459</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 District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District'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, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ <u>1,887,459</u>	<u>100.00</u>

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 114,861
Investments	1,887,459
Cash with fiscal agent	<u>37,449</u>
<b>Total</b>	<b><u>\$ 2,039,769</u></b>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,829,206
Private-purpose trust funds	2,500
Agency funds	<u>208,063</u>
<b>Total</b>	<b><u>\$ 2,039,769</u></b>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund transfers for the year ended June 30, 2009, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:

General fund	\$ 8,648
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Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

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

- B.** Interfund balances at June 30, 2009 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 951

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2009 consisted of intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental activities:**

Intergovernmental \$ 472,657

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

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance <u>06/30/08</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>06/30/09</u>
<b>Governmental activities:</b>				
Furniture and equipment	\$ 572,174	\$ 87,662	\$ (54,314)	\$ 605,522
Total capital assets, being depreciated	<u>572,174</u>	<u>87,662</u>	<u>(54,314)</u>	<u>605,522</u>
<i>Less: accumulated depreciation</i>				
Furniture and equipment	<u>(350,113)</u>	<u>(67,699)</u>	<u>32,644</u>	<u>(385,168)</u>
Total accumulated depreciation	<u>(350,113)</u>	<u>(67,699)</u>	<u>32,644</u>	<u>(385,168)</u>
Governmental activities capital assets, net	<u>\$ 222,061</u>	<u>\$ 19,963</u>	<u>\$ (21,670)</u>	<u>\$ 220,354</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 3,567  
Special 970

Support services:

Pupil 1,646  
Instructional staff 9,716  
Administration 18,384  
Fiscal 2,555  
Business 129  
Operations and maintenance 7,316  
Central 23,416

Total depreciation expense \$ 67,699

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 8 - LONG-TERM OBLIGATIONS**

During the fiscal year 2009, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/08</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/09</u>	Amounts Due in <u>One Year</u>
<b>Governmental activities:</b>					
Compensated absences payable	\$ 484,401	\$ 180,048	\$ (93,327)	\$ 571,122	\$ 98,742

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

**NOTE 9 - COMPENSATED ABSENCES**

Sick Leave:

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

Severance Pay:

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

Retirement

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 9 - COMPENSATED ABSENCES - (Continued)**

6. The individual must sign for his/her severance check certifying that all eligibility criteria have been met.

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

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

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

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

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

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

**NOTE 10 - RISK MANAGEMENT**

**A. Comprehensive**

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

**B. Employee Health Insurance**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 10 - RISK MANAGEMENT – (Continued)**

termination of the Association, all ESC's claims would be paid without regard to the ESC's account balance. The Association Board of Directors has the right to return monies to an exiting member subsequent to the settlement of all expenses and claims.

**C. Workers' Compensation**

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

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school ESC's is calculated as one experience and a common premium rate is applied to all school ESC's in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school ESC's that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. 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 and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Forms and Publications*.

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 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended 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 to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$269,273, \$189,791 and \$161,328, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 11 - PENSION PLANS – (Continued)**

**B. State Teachers Retirement System of Ohio**

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

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

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

Funding Policy - For fiscal year 2009, 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, 2009, 2008 and 2007 were \$914,357, \$724,074 and \$608,638, respectively;

100 percent has been contributed for fiscal years 2009, 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$3,337 made by the ESC and \$15,228 made by the plan members.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**NOTE 11 - PENSION PLANS - (Continued)**

**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, 2009, 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 and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

**Funding Policy** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

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

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009, 2008, and 2007 were \$149,627, \$110,929 and \$76,249, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$22,217, \$13,675 and \$10,970, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)**

**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](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, 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, 2009, 2008, and 2007 were \$70,335, \$55,698 and \$46,818, respectively; 100 percent has been contributed for fiscal years 2009, 2008 and 2007.

**NOTE 13 - STATE FUNDING**

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

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$40.52 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. However, due to State funding cuts the ESC was only funded \$36.62 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 \$47.02 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating Boards approve or disapprove the apportionment. The districts to which the ESC provides services have agreed to pay \$6.50 per pupil to provide additional funding for services provided by the ESC.

**NOTE 14 - CONTINGENCIES**

**A. Grants**

The ESC receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**NOTE 14 – CONTINGENCIES – (Continued)**

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.

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

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, 2009

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Earnings on investments . . . . .	\$ 30,564	\$ 31,500	\$ 14,077	(17,423)
Tuition . . . . .	5,944,461	6,126,412	6,104,965	(21,447)
Classroom materials and fees . . . . .	55,841	57,550	50,862	(6,688)
Contributions and donations . . . . .	6,792	7,000	8,459	1,459
Other local revenues . . . . .	955,529	984,776	864,111	(120,665)
Contract service revenue . . . . .	3,433,275	3,538,363	3,970,173	431,810
Intergovernmental - State . . . . .	3,034,443	3,127,323	3,163,800	36,477
Intergovernmental - Federal . . . . .	36,970	38,102	38,102	
Total revenue . . . . .	<u>13,497,875</u>	<u>13,911,026</u>	<u>14,214,549</u>	<u>303,523</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	445,273	458,889	452,251	6,638
Special . . . . .	5,047,168	5,201,499	4,830,996	370,503
Support services:				
Pupil . . . . .	3,380,945	3,484,327	3,201,400	282,927
Instructional staff . . . . .	2,113,430	2,178,054	2,090,443	87,611
Board of education . . . . .	57,919	59,690	56,629	3,061
Administration . . . . .	1,025,375	1,056,729	1,022,717	34,012
Fiscal . . . . .	503,104	518,488	505,167	13,321
Business . . . . .	96,728	99,686	99,444	242
Operations and maintenance . . . . .	437,175	450,543	425,972	24,571
Pupil transportation . . . . .	96,886	99,849	71,908	27,941
Central . . . . .	572,685	590,197	501,405	88,792
Operation of non-instructional services . . . . .	84,837	87,431	79,045	8,386
Total expenditures . . . . .	<u>13,861,525</u>	<u>14,285,382</u>	<u>13,337,377</u>	<u>948,005</u>
Excess of revenues over (under) expenditures . . . . .	<u>(363,650)</u>	<u>(374,356)</u>	<u>877,172</u>	<u>1,251,528</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	3,396	3,500		(3,500)
Contingencies . . . . .	(30,861)	(31,805)		31,805
Transfers in . . . . .	71,923	74,124	74,124	
Transfers (out) . . . . .	(80,316)	(82,772)	(82,772)	
Advances in . . . . .	387	399	399	
Advances (out) . . . . .	(923)	(951)	(951)	
Insurance proceeds . . . . .	40,753	42,000	42,000	
Total other financing sources (uses) . . . . .	<u>4,359</u>	<u>4,495</u>	<u>32,800</u>	<u>28,305</u>
Net change in fund balance . . . . .	(359,291)	(369,861)	909,972	1,279,833
<b>Fund balance at beginning of year . . . . .</b>	<b>640,327</b>	<b>640,327</b>	<b>640,327</b>	
<b>Prior year encumbrances appropriated . . . . .</b>	<b>82,284</b>	<b>82,284</b>	<b>82,284</b>	
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 363,320</u></b>	<b><u>\$ 352,750</u></b>	<b><u>\$ 1,632,583</u></b>	<b><u>\$ 1,279,833</u></b>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER  
SENECA COUNTY  
NOTE TO THE SUPPLEMENTARY INFORMATION**

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

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

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

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

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ 909,972
Net adjustment for revenue accruals	10,318
Net adjustment for expenditure accruals	(378,282)
Net adjustment for other sources/(uses)	(41,448)
Adjustment for encumbrances	<u>45,789</u>
GAAP basis	<u>\$ 546,349</u>

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
National School Lunch Program	10.555	\$ 10,071	\$ 10,071
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
Special Education Cluster:			
Special Education Grants to States	84.027	1,153,904	1,164,381
Special Education Preschool Grant	84.173	125,064	125,280
Total Special Education Cluster		1,278,968	1,289,661
Title I Grants to Local Educational Agencies	84.010	18,839	18,839
Help Me Grow	84.181	57,114	57,114
LEP Title II	84.365	13,544	13,544
School Improvement Grant	84.377	6,000	6,000
<b>Total U.S. Department of Education</b>		<b>1,374,465</b>	<b>1,385,158</b>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>			
<i>Passed Through Ohio Department of Developmental Disabilities:</i>			
Medical Assistance Program (CAFS)	93.778	38,102	
<b>Total Federal Receipts and Expenditures</b>		<b>\$ 1,422,638</b>	<b>\$ 1,395,229</b>

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

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2009**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – NATIONAL SCHOOL LUNCH PROGRAM**

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

**NOTE C – COMMUNITY ALTERNATIVE FUNDING SYSTEM (CAFS)**

The Educational Service Center received \$38,102 of CAFS money during fiscal year 2009. These funds relate to settlements for CAFS services provided during prior years.



# Mary Taylor, CPA

Auditor of State

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

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

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the North Central Ohio Educational Service Center, Seneca County, (the ESC) as of and for the year ended June 30, 2009, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated January 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ESC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the ESC's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the ESC's internal control will not prevent or detect a material financial statement misstatement.

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

#### **Compliance and Other Matters**

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

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



**Mary Taylor, CPA**  
Auditor of State

January 13, 2010



# Mary Taylor, CPA

Auditor of State

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

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

To the Governing Board:

### Compliance

We have audited the compliance of the North Central Ohio Educational Service Center, Seneca County, (the ESC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the ESC's major federal programs. The ESC's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the ESC's compliance based on our audit.

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

In our opinion, the North Central Ohio Educational Service Center complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2009.

### Internal Control Over Compliance

The ESC's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the ESC's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the ESC's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ESC's ability to administer a federal program such that there is more than a remote likelihood that the ESC's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the ESC's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



**Mary Taylor, CPA**  
Auditor of State

January 13, 2010

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2009**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None





**Mary Taylor, CPA**  
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 2, 2010**