

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

SINGLE AUDIT

JUNE 30, 2008

Perry & Associates, CPA's, A.C.



Mary Taylor, CPA

Auditor of State

Board of Education
North Central Ohio Educational Service Center
65 St. Francis Ave
Tiffin, Ohio 44883-3413

We have reviewed the *Independent Accountants' Report* of the North Central Ohio Educational Service Center, Seneca County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The North Central Ohio Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 11, 2009

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

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Perry & Associates
Certified Public Accountants, A.C.

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INDEPENDENT ACCOUNTANTS' REPORT

January 23, 2009

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of **North Central Ohio Educational Service Center, Seneca County, Ohio** (the ESC), as of and for the year ended June 30, 2008, which collectively comprise the ESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ESC's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of North Central Educational Service Center, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2009, 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.

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. The budgetary comparison for the General Fund is not required but is supplementary information provided. 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 Educational Service Center's basic financial statements. The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected 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.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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, 2008. 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 2008 are as follows:

- In total, net assets of governmental activities decreased \$82,295 which represents a 918.06% decrease from 2007.
- General revenues accounted for \$3,071,713 in revenue or 25.18% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$9,127,694 or 74.82% of total revenues of \$12,199,407.
- The ESC had \$12,281,702 in expenses related to governmental activities; \$9,127,694 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 \$3,071,713 were not adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$10,046,526 in revenues and \$10,160,874 in expenditures and other financing uses. During fiscal year 2008, the general fund's fund balance decreased \$114,348 from \$80,458 to a deficit of \$33,890.

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 2008?" 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 accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

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.

The District's statement of net assets and statement of activities can be found on pages 12-13 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 14-17 of this report.

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 on pages 18 and 19. 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. These notes to the basic financial statements can be found on pages 20-39 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The ESC as a Whole

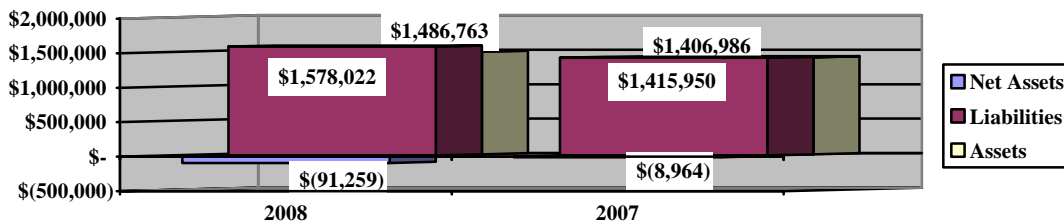
Recall that the statement of net assets provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net assets for 2008 and 2007.

	Net Assets	
	Governmental Activities 2008	Governmental Activities 2007
<u>Assets</u>		
Current assets	\$ 1,264,702	\$ 1,304,853
Capital assets, net	222,061	102,133
Total assets	<u>1,486,763</u>	<u>1,406,986</u>
<u>Liabilities</u>		
Current liabilities	1,093,621	999,635
Long-term liabilities	484,401	416,315
Total liabilities	<u>1,578,022</u>	<u>1,415,950</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	222,061	102,133
Restricted	146,700	167,976
Unrestricted (unrestricted)	(460,020)	(279,073)
Total net assets	<u>\$ (91,259)</u>	<u>\$ (8,964)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the ESC's liabilities exceeded assets by \$91,259. Of this total, \$368,761 is restricted in use leaving the ESC with an unrestricted net assets deficit of \$460,020.

Governmental Activities



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The table below shows the change in net assets for fiscal years 2008 and 2007.

	Change in Net Assets	
	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 7,203,626	\$ 6,433,783
Operating grants and contributions	1,924,068	457,697
General revenues:		
Grants and entitlements, unrestricted	2,320,538	2,417,648
Investment earnings	35,351	59,281
Other	<u>715,824</u>	<u>189,866</u>
Total revenues	<u>12,199,407</u>	<u>9,558,275</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	367,711	436,703
Special	3,556,644	3,495,985
Support services:		
Pupil	2,276,204	2,177,814
Instructional staff	2,857,394	1,817,901
Board of education	55,771	46,678
Administration	1,391,897	872,605
Fiscal	533,231	326,426
Business	76,115	52,705
Operations and maintenance	462,324	420,233
Pupil transportation	24,985	29,050
Central	451,744	276,235
Operations of non-instructional services:		
Food service operations	20,971	20,765
Other non-instructional services	64,386	45,164
Intergovernmental pass-through	142,325	134,869
Interest and fiscal charges	<u>-</u>	<u>10</u>
Total expenses	<u>12,281,702</u>	<u>10,153,143</u>
Change in net assets	(82,295)	(594,868)
Net assets at beginning of year	<u>(8,964)</u>	<u>585,904</u>
Net assets at end of year	<u><u>\$ (91,259)</u></u>	<u><u>\$ (8,964)</u></u>

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

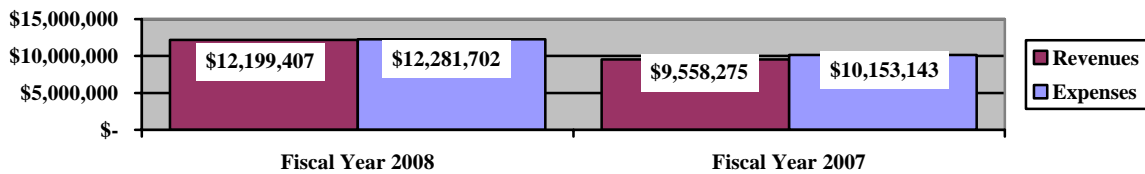
Governmental Activities

Net assets of the ESC's governmental activities decreased \$82,295. Total governmental expenses of \$12,281,702 were offset by program revenues of \$9,127,694 and general revenues of \$3,071,713. Program revenues supported 74.32% 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 59.05% of total governmental revenue.

The largest expense of the ESC is for support services. Support services expenses totaled \$8,129,665 or 66.19% of total governmental expenses for fiscal 2008.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2008 and 2007.

Governmental Activities - Revenues and Expenses



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 tax revenue and unrestricted State grants and entitlements, and other general revenues not restricted to a specific program.

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

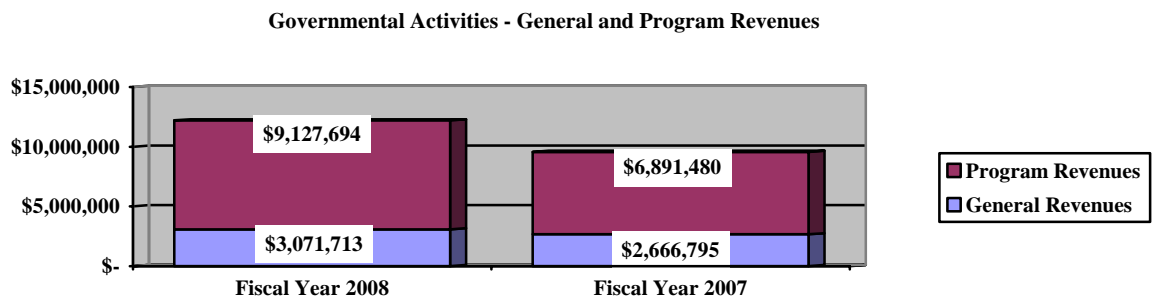
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Governmental Activities

	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Program expenses				
Instruction:				
Regular	\$ 367,711	\$ 257,509	\$ 436,703	\$ 237,768
Special	3,556,644	644,094	3,495,985	944,588
Support services:				
Pupil	2,276,204	412,653	2,177,814	274,211
Instructional staff	2,857,394	308,393	1,817,901	404,670
Board of education	55,771	55,771	46,678	46,678
Administration	1,391,897	82,340	872,605	235,183
Fiscal	533,231	438,557	326,426	320,082
Business	76,115	76,115	52,705	52,705
Operations and maintenance	462,324	396,709	420,233	401,452
Pupil transportation	24,985	8,976	29,050	13,517
Central	451,744	409,129	276,235	276,003
Operations of non-instructional services:				
Food service operations	20,971	(2,468)	20,765	2,142
Other non-instructional services	64,386	64,386	45,164	45,164
Intergovernmental pass-through	142,325	1,844	134,869	7,490
Interest and fiscal charges	-	-	10	10
Total expenses	\$ 12,281,702	\$ 3,154,008	\$ 10,153,143	\$ 3,261,663

The dependence on unrestricted grants and entitlements and other general revenues for governmental activities is apparent, 22.97% of instruction activities are supported through general revenues. For all governmental activities, general revenue support is 25.68%. 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 2008 and 2007.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$115,603, which is lower than last year's total of \$225,670. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	<u>Fund Balance</u> <u>June 30, 2008</u>	<u>Fund Balance</u> <u>June 30, 2007</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
General	\$ (33,890)	\$ 80,458	\$ (114,348)	(142.12) %
Other Governmental	<u>149,493</u>	<u>145,212</u>	<u>4,281</u>	2.95 %
Total	<u>\$ 115,603</u>	<u>\$ 225,670</u>	<u>\$ (110,067)</u>	(48.77) %

General Fund

The ESC's general fund balance decreased by \$114,348. The decrease in fund balance can be attributed to several items related to expenditure increases outpacing the increase in revenues, and transfers out to other funds. Expenditures exceeded revenues in year 2008 by \$96,474. The 2007 revenue amounts have been reclassified to conform with the 2008 presentation, consistent with AOS bulletin 2007-005. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Contract services	\$ 3,352,889	\$ 2,705,430	\$ 647,459	23.93 %
Earnings on investments	35,351	59,281	(23,930)	(40.37) %
Tuition	3,567,093	3,309,835	257,258	7.77 %
Intergovernmental	2,320,538	2,417,648	(97,110)	(4.02) %
Other revenues	<u>770,655</u>	<u>557,455</u>	<u>213,200</u>	38.25 %
Total	<u>\$ 10,046,526</u>	<u>\$ 9,049,649</u>	<u>\$ 996,877</u>	11.02 %
<u>Expenditures</u>				
Instruction	\$ 3,817,865	\$ 3,798,424	\$ 19,441	0.51 %
Support services	6,260,749	5,828,282	432,467	7.42 %
Non-instructional services	64,386	45,164	19,222	42.56 %
Debt service	<u>-</u>	<u>404</u>	<u>(404)</u>	(100.00) %
Total	<u>\$ 10,143,000</u>	<u>\$ 9,672,274</u>	<u>\$ 470,726</u>	4.87 %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

Contract services increased \$647,459 and can be attributed to additional contracts with school districts for services, such as, curriculum directing and coordinating, special education supervision, educational consulting, nursing, literacy consulting, and student attendant services. In addition, the ESC received additional revenue for work as the fiscal agent with the State Support Team grants. Earnings on investments decreased 40.37% mainly due to lower interest rates paid on investments. Other revenues increased \$213,200 primarily because of an increase in BCI and FBI fees, as well as, increased revenues in the rehab center. Support services expenditures increased \$477,631 which can be attributed to the employment of additional contracted personal for services listed above. In fiscal year 2007, the District made the final capital lease payment under the debt service expenditure leaving no payments in fiscal year 2008. All other revenue and expenditure line items shown are deemed immaterial amounts relative to total expenditures or were consistent with 2007 and they do not warrant further analysis.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2008, the ESC had \$222,061 invested in furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2008 balances compared to 2007:

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

	Governmental Activities	
	2008	2007
Furniture and equipment	\$ 222,061	\$ 102,133
Total	\$ 222,061	\$ 102,133

The overall increase in capital assets of \$119,928 is due primarily to the acquisition of furniture and equipment in the fiscal year in the amount of \$173,608.

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

Debt Administration

At June 30, 2008, the ESC had no debt outstanding.

Current Financial Related Activities

Fiscal year 2008, much like fiscal year 2007, brought major changes in personnel and programs to the educational service center (ESC). The ESC became one of the sixteen statewide fiscal agents for the State Support Team (SST). The State Support Teams were established as part of House Bill 115 with the purpose to improve school effectiveness and student achievement. The intent of the general assembly was to reduce the unnecessary duplication of programs and services and provide a more streamlined and efficient delivery of educational services. The SST has a supervisory function that oversees four programs: School Improvement, Literacy, Early Childhood, and Special Education. These combined grants account for over \$1.9 million in new grant dollars. In addition, the ESC employed an additional fifteen staff members.

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

New professional development opportunities were customized to meet the needs of educators. Customized professional development includes Web 2.0 applications like Podcasts, learning management systems like MOODLE, and GoogleDocs online version of sharing spreadsheets and PowerPoint presentations. In addition, new interactive training for SMARTBoards and Mimios also took place.

The ESC hired a distance learning facilitator to provide live science based videoconferences to students in grades K-12. Programs are designed to meet National Science Education Content Standards and act as a supplement to the unit students are studying. This program also works closely with educators to "custom" design programs to meet their classroom needs. This facilitator has presented over 4,000 videoconference programs to schools in thirty-four states and ten different countries. Due to the growing use of technology within schools, video distance learning has become as much of a classroom tool as a textbook.

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 (ODE) and the Ohio Department of Job and Family Services (ODJFS) will be filing rules to establish the new Ohio Medicaid School Program (OMSP) to replace the old CAFS program which ended on July 1, 2005. The new OMSP program will permit certain local educational agencies to receive federal matching Medicaid funds for services provided by licensed practitioners to Medicaid-eligible students. Under the new rules, ESCs would no longer be considered direct service providers and could not receive direct reimbursement. ESCs will be required to contract with local school districts to receive reimbursement for the services they provide to students. ODE is in the process of developing key points to include in the contract between the local schools and ESCs.

In February 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 number two foundation payment. For the ESC, this reduction in State revenue totaled \$91,241. This decrease in funding was not passed on to the school districts in the consortium. For fiscal year 2009, the ESC is also receiving a similar reduction in State foundation revenue and is evaluating the best method to recover this lost revenue.

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.

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

STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 848,520
Cash with fiscal agent.	92,643
Receivables:	
Intergovernmental	296,951
Prepayments	26,588
Capital assets:	
Depreciable capital assets, net	222,061
Total assets.	1,486,763
Liabilities:	
Accounts payable.	55,724
Accrued wages and benefits	822,369
Pension obligation payable.	129,018
Intergovernmental payable	85,935
Unearned revenue	575
Long-term liabilities:	
Due within one year.	106,803
Due within more than one year	377,598
Total liabilities	1,578,022
Net Assets:	
Invested in capital assets.	222,061
Restricted for:	
Locally funded programs	110,687
State funded programs.	33,425
Federally funded programs.	2,474
Other purposes	114
Unrestricted (deficit)	(460,020)
Total net assets (deficit).	\$ (91,259)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 367,711	\$ 50,006	\$ 60,196	\$ (257,509)
Special	3,556,644	2,912,550	-	(644,094)
Support services:				
Pupil	2,276,204	1,843,023	20,528	(412,653)
Instructional staff	2,857,394	1,695,816	853,185	(308,393)
Board of education	55,771	-	-	(55,771)
Administration	1,391,897	670,790	638,767	(82,340)
Fiscal	533,231	585	94,089	(438,557)
Business	76,115	-	-	(76,115)
Operations and maintenance	462,324	8,951	56,664	(396,709)
Pupil transportation	24,985	-	16,009	(8,976)
Central	451,744	11,198	31,417	(409,129)
Operation of non-instructional services:				
Food service operations	20,971	10,707	12,732	2,468
Other non-instructional services	64,386	-	-	(64,386)
Intergovernmental pass-through	142,325	-	140,481	(1,844)
Total governmental activities	\$ 12,281,702	\$ 7,203,626	\$ 1,924,068	\$ (3,154,008)
General Revenues:				
Grants and entitlements not restricted				
to specific programs				2,320,538
Investment earnings				35,351
Miscellaneous				715,824
Total general revenues				3,071,713
Change in net assets				(82,295)
Net assets (deficit) at beginning of year				(8,964)
Net assets (deficit) at end of year				\$ (91,259)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 629,968	\$ 218,552	\$ 848,520
Cash with fiscal agent	92,643	-	92,643
Receivables:			
Intergovernmental	296,064	887	296,951
Interfund loans.	399	-	399
Prepayments	26,588	-	26,588
Total assets	<u>1,045,662</u>	<u>219,439</u>	<u>1,265,101</u>
Liabilities:			
Accounts payable	45,504	10,220	55,724
Accrued wages and benefits	796,094	26,275	822,369
Pension obligation payable.	122,868	6,150	129,018
Intergovernmental payable.	59,033	26,902	85,935
Interfund loans payable.	-	399	399
Deferred revenue.	55,478	-	55,478
Unearned revenue.	575	-	575
Total liabilities	<u>1,079,552</u>	<u>69,946</u>	<u>1,149,498</u>
Fund Balances:			
Reserved for encumbrances	31,941	259,813	291,754
Reserved for prepayments	26,588	-	26,588
Unreserved, undesignated (deficit), reported in:			
General fund	(92,419)	-	(92,419)
Special revenue funds.	-	(110,320)	(110,320)
Total fund balances (deficit)	<u>(33,890)</u>	<u>149,493</u>	<u>115,603</u>
Total liabilities and fund balances	<u>\$ 1,045,662</u>	<u>\$ 219,439</u>	<u>\$ 1,265,101</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

Total governmental fund balances		\$	115,603
<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.			222,061
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Contract service revenue	53,469		
Other local revenue	2,009		
Total			55,478
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences	(484,401)		
Total			(484,401)
Net assets (deficit) of governmental activities		\$	(91,259)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Charges for services	\$ -	\$ 3,342	\$ 3,342
Earnings on investments.	35,351	-	35,351
Tuition.	3,567,093	-	3,567,093
Classroom materials and fees.	36,825	-	36,825
Other local revenues.	733,830	285,079	1,018,909
Contract service revenue	3,352,889	-	3,352,889
Intergovernmental - State.	2,320,538	1,646,817	3,967,355
Intergovernmental - Federal	-	226,938	226,938
Total revenue	<u>10,046,526</u>	<u>2,162,176</u>	<u>12,208,702</u>
Expenditures:			
Current:			
Instruction:			
Regular	303,069	70,430	373,499
Special.	3,514,796	-	3,514,796
Support services:			
Pupil.	2,233,672	20,551	2,254,223
Instructional staff	1,913,993	969,777	2,883,770
Board of education	54,271	1,500	55,771
Administration.	724,289	697,491	1,421,780
Fiscal	418,684	116,459	535,143
Business	75,857	-	75,857
Operations and maintenance.	406,760	65,871	472,631
Pupil transportation	8,977	16,008	24,985
Central.	424,246	54,386	478,632
Operation of non-instructional services:			
Food service operations	-	20,971	20,971
Other non-instructional services.	64,386	-	64,386
Intergovernmental pass-through	-	142,325	142,325
Total expenditures	<u>10,143,000</u>	<u>2,175,769</u>	<u>12,318,769</u>
Excess of revenues over expenditures	<u>(96,474)</u>	<u>(13,593)</u>	<u>(110,067)</u>
Other financing sources (uses):			
Transfers in	-	17,874	17,874
Transfers (out).	(17,874)	-	(17,874)
Total other financing sources (uses)	<u>(17,874)</u>	<u>17,874</u>	<u>-</u>
Net change in fund balances	(114,348)	4,281	(110,067)
Fund balances at beginning of year	<u>80,458</u>	<u>145,212</u>	<u>225,670</u>
Fund balances (deficit) at end of year.	<u>\$ (33,890)</u>	<u>\$ 149,493</u>	<u>\$ 115,603</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds	\$	(110,067)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>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.</p>		
Capital asset additions	173,608	
Current year depreciation	<u>(53,029)</u>	
Total		120,579
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(651)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(9,295)
<p>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.</p>		
		<u>(82,861)</u>
Change in net assets of governmental activities	\$	<u><u>(82,295)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,578	\$ 216,098
Prepayments	-	469
Receivables:		
Intergovernmental	-	38,603
Total assets	1,578	255,170
Liabilities:		
Accounts payable	-	15,710
Accrued wages and benefits	-	8,479
Pension obligation payable	-	2,761
Intergovernmental payable	-	228,220
Total liabilities	-	\$ 255,170
Net Assets:		
Held in trust for scholarships	1,578	
Total net assets	\$ 1,578	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 5,755
Deductions:	
Scholarships awarded	7,503
Change in net assets	(1,748)
Net assets at beginning of year	3,326
Net assets at end of year.	\$ 1,578

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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, 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, vocational, 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 103 non-certified employees and 117 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, component units and other organizations that are included to ensure that the basic financial statements of the ESC are not misleading. 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, foods service, preschool 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. Based upon the application of these criteria, the ESC has no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

A. Reporting Entity - (Continued)

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

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 area school districts and 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, the Sandusky County 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

C. Basis of Presentation and Measurement Focus - (Continued)

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

D. Basis of Accounting - (Continued)

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. Budgets

Although not legally required, the ESC adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; (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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

F. Cash and Investments

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

During fiscal year 2008, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2008.

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 2008 amounted to \$35,351, which includes \$12,485 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.

G. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net 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:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

H. Interfund Balances

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

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

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2008, 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, 2008, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

J. Accrued Liabilities and Long-Term Obligations - (Continued)

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

K. Fund Balance 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.

L. 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.

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

M. Prepayments

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

N. Estimates

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

O. Interfund Activity

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2008, the ESC has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the ESC; however, certain disclosures related to postemployment benefits (see Note 12) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the ESC.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2008 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Retirement benefit fund	\$ 371
IDEA part b	12,356
Miscellaneous federal grants	2,380
Miscellaneous state grants	1,542

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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;
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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2008 was \$92,643.

B. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all ESC deposits was \$37,806. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$683,850 of the ESC's bank balance of \$783,850 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

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

C. Investments

As of June 30, 2008, the ESC had the following investments and maturities:

		Investment Maturity
<u>Investment type</u>	<u>Fair Value</u>	6 months or less
STAR Ohio	<u>\$ 1,028,390</u>	<u>\$ 1,028,390</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments - (Continued)

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, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 1,028,390	100.00

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, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 37,806
Investments	1,028,390
Cash with fiscal agent	<u>92,643</u>
Total	<u>\$ 1,158,839</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 941,163
Private-purpose trust funds	1,578
Agency funds	<u>216,098</u>
Total	<u>\$ 1,158,839</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2008, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:			
General Fund			\$ 17,874

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, 2008 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		\$ 399

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.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2008 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 \$ 296,951

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance			Balance
	<u>06/30/07</u>	<u>Additions</u>	<u>Disposals</u>	<u>06/30/08</u>
Governmental activities				
Furniture and equipment	\$ 529,022	\$ 173,608	\$ (130,456)	\$ 572,174
Total capital assets, being depreciated	<u>529,022</u>	<u>173,608</u>	<u>(130,456)</u>	<u>572,174</u>
<i>Less: accumulated depreciation</i>				
Furniture and equipment	(426,889)	(53,029)	129,805	(350,113)
Total accumulated depreciation	<u>(426,889)</u>	<u>(53,029)</u>	<u>129,805</u>	<u>(350,113)</u>
Governmental activities capital assets, net	<u>\$ 102,133</u>	<u>\$ 120,579</u>	<u>\$ (651)</u>	<u>\$ 222,061</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$ 2,846
Special		4,541
Support services:		
Pupil		2,992
Instructional staff		9,632
Administration		4,482
Fiscal		2,675
Business		258
Operations and maintenance		6,434
Central		<u>19,169</u>
Total depreciation expense		<u>\$ 53,029</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During the fiscal year 2008, the following changes occurred in governmental activities long-term obligations:

	Balance			Balance	Amounts
	Outstanding			Outstanding	Due in
	<u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/08</u>	<u>One Year</u>
Governmental activities:					
Compensated absences payable	\$ 416,315	\$ 134,401	\$ (66,315)	\$ 484,401	\$ 106,803
Total long-term obligations, governmental activities	<u>\$ 416,315</u>	<u>\$ 134,401</u>	<u>\$ (66,315)</u>	<u>\$ 484,401</u>	<u>\$ 106,803</u>

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 9 - COMPENSATED ABSENCES

Sick Leave:

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

Severance Pay:

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

Retirement

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

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

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 9 - COMPENSATED ABSENCES - (Continued)

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 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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, 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 2008, 9.16 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, 2008, 2007 and 2006 were \$189,791, \$161,328 and \$131,252, respectively; 100 percent has been contributed for fiscal year 2008, 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 11 - PENSION PLANS - (Continued)

A. State Teachers Retirement System of Ohio - (Continued)

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

Funding Policy - For fiscal year 2008, 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, 2008, 2007 and 2006 were \$724,074, \$608,638 and \$616,491, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$4,065 made by the ESC and \$10,178 made by the plan members.

B. 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, 2008, 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 401h. For 2008, 4.18 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 2008, this amount was \$35,800.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

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

The ESC's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$110,929, \$76,249 and \$68,492, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$13,675, \$10,970 and \$10,447, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, 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, 2008, 2007, and 2006 were \$55,698, \$46,818 and \$47,422, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

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, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC.

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 \$43.50 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

The ESC is party to legal proceedings seeking damages generally incidental to its operations and spending projects. The ESC management is of the opinion that the claim and legal proceedings will not have a material effect, if any, on the financial condition of the ESC.

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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Earnings on investments.	\$ 38,750	\$ 39,753	\$ 35,351	\$ (4,402)
Tuition.	3,910,030	4,011,255	3,567,093	(444,162)
Classroom materials and fees.	40,365	41,410	36,825	(4,585)
Other local revenues	803,873	824,684	733,368	(91,316)
Contract service revenue	3,636,970	3,731,126	3,317,982	(413,144)
Intergovernmental - State	2,543,633	2,609,484	2,320,538	(288,946)
Total revenue	<u>10,973,621</u>	<u>11,257,712</u>	<u>10,011,157</u>	<u>(1,246,555)</u>
Expenditures:				
Current:				
Instruction:				
Regular	316,095	324,818	300,128	24,690
Special.	3,694,181	3,796,132	3,507,572	288,560
Support services:				
Pupil.	2,378,385	2,444,023	2,258,243	185,780
Instructional staff	2,011,917	2,067,441	1,910,286	157,155
Board of education	57,157	58,735	54,270	4,465
Administration.	785,912	807,601	746,212	61,389
Fiscal	431,253	443,155	409,469	33,686
Business	79,315	81,503	75,308	6,195
Operations and maintenance.	431,378	443,283	409,587	33,696
Pupil transportation	9,636	9,902	9,149	753
Central.	491,226	504,783	466,412	38,371
Operation of non-instructional services	68,991	70,895	65,506	5,389
Total expenditures	<u>10,755,446</u>	<u>11,052,271</u>	<u>10,212,142</u>	<u>840,129</u>
Excess of revenues over (under) expenditures.	<u>218,175</u>	<u>205,441</u>	<u>(200,985)</u>	<u>(406,426)</u>
Other financing sources (uses):				
Refund of prior year expenditure	3,949	4,052	3,603	(449)
Refund of prior years receipts.	(5,266)	(5,411)	(5,000)	411
Transfers (out)	(18,825)	(19,344)	(17,874)	1,470
Advances in.	60,140	61,697	54,865	(6,832)
Advances (out)	(420)	(432)	(399)	33
Total other financing sources (uses)	<u>39,578</u>	<u>40,562</u>	<u>35,195</u>	<u>(5,367)</u>
Net change in fund balance	257,753	246,003	(165,790)	(411,793)
Fund balance at beginning of year.	769,915	769,915	769,915	-
Prior year encumbrances appropriated	36,202	36,202	36,202	-
Fund balance at end of year	<u>\$ 1,063,870</u>	<u>\$ 1,052,120</u>	<u>\$ 640,327</u>	<u>\$ (411,793)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTE TO THE SUPPLEMENTARY INFORMATION

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	\$ (165,790)
Net adjustment for revenue accruals	35,369
Net adjustment for expenditure accruals	(13,142)
Net adjustment for other sources/uses	(53,069)
Adjustment for encumbrances	<u>82,284</u>
GAAP basis	<u><u>\$ (114,348)</u></u>

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Lunch Program	LL-P4 2007	10.555	\$ 7,206	\$ 7,206
	LL-P4 2008		3,170	3,170
			<u>10,376</u>	<u>10,376</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>10,376</u>	<u>10,376</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	C1-SD 2007	84.010	16,560	16,409
	C1-SD 2008		-	105
			<u>16,560</u>	<u>16,514</u>
Special Education Grants to States	6B-SF 2008	84.027	688,663	674,564
Special Education Preschool Grant	PG-S1 2007	84.173	136,156	139,544
	PG-S1 2008		-	7,891
			<u>136,156</u>	<u>147,435</u>
Help Me Grow	N/A	84.181	54,922	54,922
LEP Title III	T3-S1 2008	84.365	6,406	6,406
Total Department of Education			<u>902,707</u>	<u>899,841</u>
Total Federal Receipts and Expenditures			<u>\$ 913,083</u>	<u>\$ 910,217</u>

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
JUNE 30, 2008**

Note A – Significant Accounting Policies

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the activity of the Educational Service Center's federal award programs. 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.

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

January 23, 2009

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of **North Central Ohio Educational Service Center, Seneca County, Ohio** (the ESC) as of and for the year ended June 30, 2008, which collectively comprise the ESC's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 23, 2009. 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 a 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.

Internal Control Over Financial Reporting (continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies 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 basic 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*.

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

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.

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**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**

January 23, 2009

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

To the Board of Education:

Compliance

We have audited the compliance of **North Central Ohio Educational Service Center, Seneca County, Ohio (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 are applicable to its major federal program for the year ended June 30, 2008. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the ESC's major federal program. 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 that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the ESC's compliance with those requirements.

In our opinion, the ESC complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The ESC's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the ESC's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of 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 of 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 federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or a 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 entity's internal control will not prevent or detect more-than-consequential 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 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 of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS 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
MARCH 24, 2009**