



**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Stark County Educational Service Center
Stark County
2100 38th Street NW
Canton, OH 44709

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stark County Educational Service Center, Stark County, Ohio, (the Service Center) as of and for the year ended June 30, 2011, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Stark County Educational Service Center, Stark County, Ohio, as of June 30, 2011, 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.

As described in Note 3, during the year ended June 30, 2011 the Service Center adopted the provisions of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2012, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

February 3, 2012

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The management's discussion and analysis of the Stark County 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, 2011. 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 2011 are as follows:

- In total, net assets of governmental activities decreased \$561,462, which represents a 20.89% decrease from 2010.
- General revenues accounted for \$3,385,507 in revenue or 17.16% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$16,348,021 or 82.84% of total revenues of \$19,733,528.
- The ESC had \$20,294,990 in expenses related to governmental activities; \$16,348,021 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$3,385,507 were not adequate to provide for these programs.
- The ESC has one major governmental fund, the general fund. The general fund had \$16,976,089 in revenues and other financing sources and \$16,654,769 in expenditures. During fiscal 2011, the general fund's fund balance increased \$321,320 from a deficit of \$175,857 to a positive balance of \$145,463.

Using these Basic Financial Statements (BFS)

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 2011?" 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.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 increased or decreased services desired by school districts, state budget cuts, 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, and other operations.

The ESC's statement of net assets and statement of activities can be found on pages 13-14 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 fund. 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 major governmental fund is the general fund.

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-18 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC is the fiscal agent of the area A-site, Stark/Portage Area Computer Consortium ("SPARCC"), the Stark County Schools Council of Government and the Stark County Family Council. This activity is presented as fiduciary funds. The ESC also maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary net assets on page 19. The investment trust fund activities for fiscal 2011 are also reported in a separate statement of changes in fiduciary net assets on page 20. 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 21-42 of this report.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The ESC as a Whole

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 2011 and 2010.

	Net Assets	
	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Assets</u>		
Current and other assets	\$ 4,266,245	\$ 4,572,811
Capital assets, net	<u>1,396,556</u>	<u>1,444,163</u>
Total assets	<u>5,662,801</u>	<u>6,016,974</u>
<u>Liabilities</u>		
Current liabilities	2,603,519	2,466,366
Long-term liabilities	<u>932,511</u>	<u>862,375</u>
Total liabilities	<u>3,536,030</u>	<u>3,328,741</u>
<u>Net assets</u>		
Invested in capital assets	1,396,556	1,444,163
Restricted	383,290	475,171
Unrestricted	<u>346,925</u>	<u>768,899</u>
Total net assets	<u>\$ 2,126,771</u>	<u>\$ 2,688,233</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the ESC's assets exceeded liabilities by \$2,126,771. Of this total, \$346,925 is unrestricted in use.

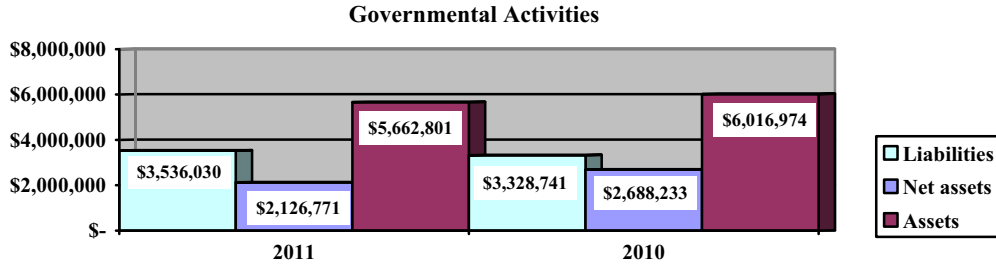
At year-end, capital assets represented 24.67% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets at June 30, 2011 were \$1,396,556. These capital assets are used to provide the ESC's services and are not available for future spending.

A portion of the ESC's net assets, \$383,290, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$346,925 may be used to meet the ESC's ongoing obligations to the students and creditors.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The graph below presents the ESC's assets, liabilities and net assets at June 30, 2011 and 2010.



The table below shows the change in net assets for fiscal years 2011 and 2010.

Change in Net Assets

	Governmental Activities 2011	Governmental Activities 2010
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 13,006,647	\$ 12,947,970
Operating grants and contributions	3,341,374	3,914,935
General revenues:		
Grants and entitlements	3,305,200	3,299,854
Investment earnings	19,104	29,184
Other	<u>61,203</u>	<u>101,291</u>
Total revenues	<u>19,733,528</u>	<u>20,293,234</u>

- - Continued

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Change in Net Assets (Continued)

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 87,778	\$ 108,487
Special	4,876,351	4,800,594
Adult/continuing	-	1,732
Support services:		
Pupil	3,372,218	3,254,249
Instructional staff	6,476,549	6,614,598
Board of education	6,452	25,506
Administration	3,567,349	3,140,963
Fiscal	466,695	414,737
Business	649,352	747,476
Operations and maintenance	570,406	357,966
Pupil transportation	68,680	396,684
Central	120,604	53,871
Extracurricular activities	-	502
Food service operations	<u>32,556</u>	<u>41,658</u>
Total expenses	<u>20,294,990</u>	<u>19,959,023</u>
Change in net assets	(561,462)	334,211
Net assets at beginning of year	<u>2,688,233</u>	<u>2,354,022</u>
Net assets at end of year	<u>\$ 2,126,771</u>	<u>\$ 2,688,233</u>

Governmental Activities

Net assets of the ESC's governmental activities decreased \$561,462. Total governmental expenses of \$20,294,990 were offset by program revenues of \$16,348,021 and general revenues of \$3,385,507. Program revenues supported 80.55% of the total governmental expenses.

Governmental activities revenue decreased approximately \$560,000. This is primarily due to the ESC receiving less in operating grants and contributions revenue in 2011, as compared to fiscal year 2010.

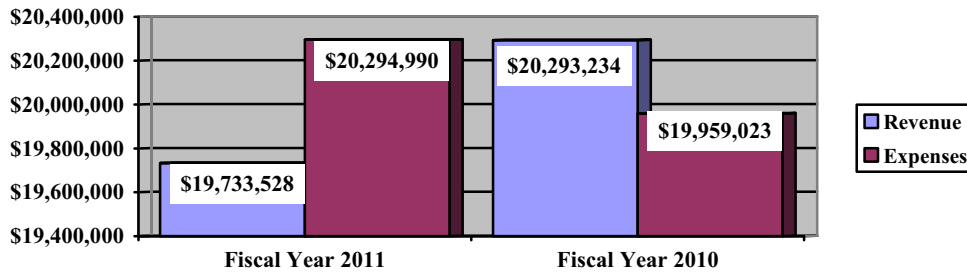
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 65.92% of total governmental revenue.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2011 and 2010.

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

Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$ 87,778	\$ (1,535)	\$ 108,487	\$ 7,673
Special	4,876,351	862,395	4,800,594	729,958
Adult/continuing	-	-	1,732	1,732
Support services:				
Pupil	3,372,218	602,140	3,254,249	439,497
Instructional staff	6,476,549	838,062	6,614,598	493,078
Board of education	6,452	6,452	25,506	25,506
Administration	3,567,349	719,799	3,140,963	515,617
Fiscal	466,695	278,482	414,737	231,071
Business	649,352	417,309	747,476	507,248
Operations and maintenance	570,406	94,886	357,966	114,663
Pupil transportation	68,680	8,415	396,684	(27,619)
Central	120,604	120,604	53,871	53,871
Extracurricular activities	-	-	502	502
Food service operations	32,556	(40)	41,658	3,321
Total	<u>\$ 20,294,990</u>	<u>\$ 3,946,969</u>	<u>\$ 19,959,023</u>	<u>\$ 3,096,118</u>

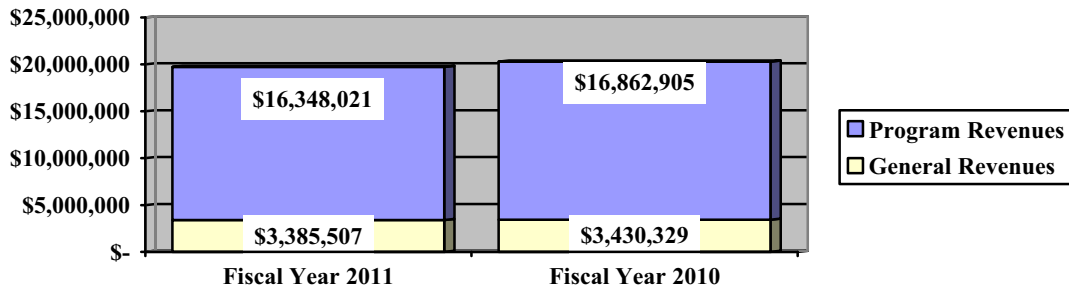
For all governmental activities, program revenue support is 80.55%. The primary support of the ESC is contracted fees for services provided to other districts.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The graph below presents the ESC's governmental activities revenue for fiscal years 2011 and 2010.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on page 15) reported a combined fund balance of \$337,322, which is greater than last year's balance of \$12,791. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance <u>June 30, 2011</u>	Fund Balance (deficit) <u>June 30, 2010</u>	<u>Increase</u>
Major Funds:			
General	\$ 145,463	\$ (175,857)	\$ 321,320
Other governmental	<u>191,859</u>	<u>188,648</u>	<u>3,211</u>
Total	<u>\$ 337,322</u>	<u>\$ 12,791</u>	<u>\$ 324,531</u>

General Fund

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>2011</u> <u>Amount</u>	<u>2010</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Tuition	\$ 8,046,378	\$ 7,297,927	10.26 %
Services provided to other entities	5,339,458	4,750,401	12.40 %
Earnings on investments	17,403	37,046	(53.02) %
Intergovernmental	3,305,199	3,299,854	0.16 %
Other revenues	<u>267,365</u>	<u>292,344</u>	(8.54) %
Total	<u>\$ 16,975,803</u>	<u>\$ 15,677,572</u>	8.28 %
<u>Expenditures</u>			
Instruction	\$ 4,628,122	\$ 4,470,273	3.53 %
Support services	12,026,647	11,677,329	2.99 %
Extracurricular activities	<u>-</u>	<u>502</u>	(100.00) %
Total	<u>\$ 16,654,769</u>	<u>\$ 16,148,104</u>	3.14 %

The general fund's revenues increased approximately \$1,300,000 over the prior fiscal year. This increase is mainly due to the increase in tuition and service provided to other entities. The ESC has continued to try to increase the revenue it receives from tuition and services provided to other entities as revenue from the State is expected to decrease over the next several years. The increased revenue also explains the increase in expenditures as tuition revenue drives many of the services the ESC provides. Interest revenue decreased because of decreasing interest rates during fiscal year 2011.

Capital Assets

At the end of fiscal 2011, the ESC had \$1,396,556 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2011 balances compared to 2010.

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

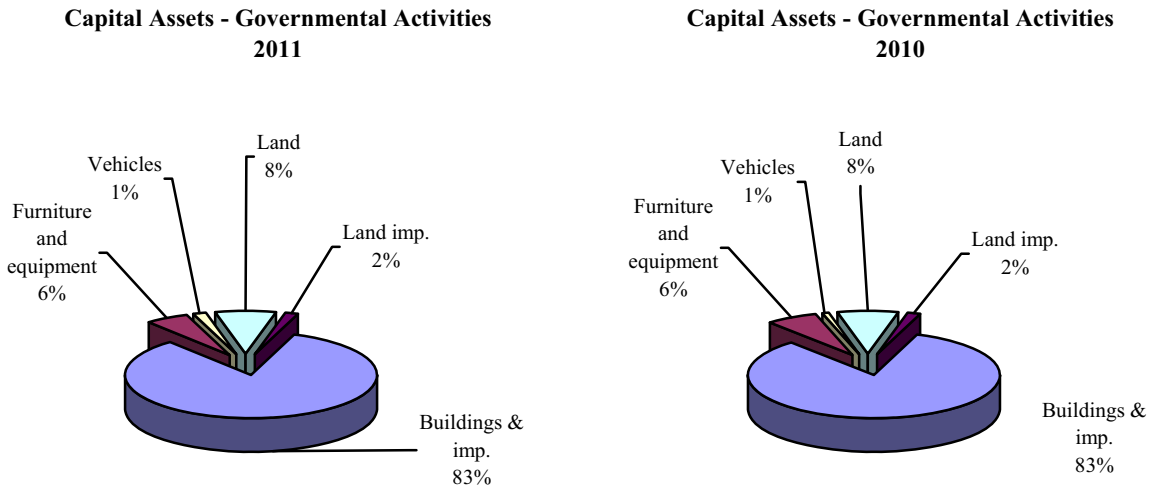
	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 111,059	\$ 111,059
Land improvements	22,742	25,292
Buildings and improvements	1,164,215	1,200,535
Furniture and equipment	77,553	93,206
Vehicles	<u>20,987</u>	<u>14,071</u>
Total	<u>\$ 1,396,556</u>	<u>\$ 1,444,163</u>

Total additions to capital assets for 2011 were \$32,303. A total of \$77,285 in depreciation expense was recognized for fiscal 2011.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The graphs below present the ESC's capital assets for fiscal 2011 and fiscal 2010. See Note 7 to the basic financial statements for additional information on the ESC's capital assets.



Current Financial Related Activities

The ESC, along with the majority of the school districts in Ohio, continues to be challenged to provide a high level of services with declining revenues. As the preceding information shows, the ESC relies heavily on contracts with local, city, and joint vocational school districts in Stark County, as well as State Foundation revenue and grants. The need for additional services from local and city school districts, along with the ESC's cash balance, will provide the ESC with the necessary funds to meet its operating expenses in fiscal year 2011. However, the future financial stability of the ESC is not without concerns.

In fiscal year 2011, every ESC in Ohio was subject to a reduction of approximately 10% of the annual funding provided by the State. This represented an approximate reduction of \$220,000. Additional reductions in the State's budget directly affected the ESC and the schools that it serves.

Declining enrollment in Stark County also remains a concern of the ESC. State funding is based on average daily membership of Stark County school districts. Continued decline in enrollment will have a direct impact on State revenues received by Stark County school districts and the amount of services they will need from the ESC.

Each year, additional services are needed by Stark County school districts. Therefore, the ESC is constantly reviewing their program activity to provide services while maintaining a financially solvent operation.

The ESC's systems of internal control and procedures are reviewed throughout the year to insure a cost efficient operation.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Contacting the ESC's Financial Management

This financial report is designed to provide the citizens, school districts, and 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 Mr. Jeff Bartholomew, Treasurer, Stark County ESC, 2100 38th Street N.W., Canton, Ohio 44709-2300 or by calling (330) 492-8136.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments.	\$ 1,490,715
Receivables:	
Accounts.	2,261,294
Intergovernmental	502,670
Loans.	1,623
Accrued interest	4,228
Prepayments	5,715
Capital assets:	
Land.	111,059
Depreciable capital assets, net.	1,285,497
Total capital assets, net	<u>1,396,556</u>
 Total assets.	 <u>5,662,801</u>
 Liabilities:	
Accounts payable.	181,141
Accrued wages and benefits	2,013,025
Pension obligation payable.	306,348
Intergovernmental payable	103,005
Long-term liabilities:	
Due within one year.	66,076
Due in more than one year.	866,435
 Total liabilities	 <u>3,536,030</u>
 Net assets:	
Invested in capital assets.	1,396,556
Restricted for:	
Locally funded programs	101,577
State funded programs.	68,584
Federally funded programs	184,362
Other purposes	28,767
Unrestricted	<u>346,925</u>
 Total net assets	 <u>\$ 2,126,771</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating Grants</u>	<u>Revenue and</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>Changes in</u>
				<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 87,778	\$ -	\$ 89,313	\$ 1,535
Special	4,876,351	3,763,965	249,991	(862,395)
Support services:				
Pupil	3,372,218	2,547,986	222,092	(602,140)
Instructional staff	6,476,549	3,529,766	2,108,721	(838,062)
Board of education	6,452	-	-	(6,452)
Administration	3,567,349	2,727,702	119,848	(719,799)
Fiscal	466,695	118,602	69,611	(278,482)
Business	649,352	232,043	-	(417,309)
Operations and maintenance	570,406	66,428	409,092	(94,886)
Pupil transportation	68,680	1,925	58,340	(8,415)
Central	120,604	-	-	(120,604)
Food service operations	32,556	18,230	14,366	40
Totals	<u>\$ 20,294,990</u>	<u>\$ 13,006,647</u>	<u>\$ 3,341,374</u>	<u>(3,946,969)</u>
General revenues:				
Grants and entitlements not restricted				
to specific programs				
				3,305,200
Investment earnings				
				19,104
Miscellaneous				
				<u>61,203</u>
Total general revenues				<u>3,385,507</u>
Change in net assets.				(561,462)
Net assets at beginning of year.				<u>2,688,233</u>
Net assets at end of year				<u><u>\$ 2,126,771</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and investments.	\$ 1,203,984	\$ 286,731	\$ 1,490,715
Receivables:			
Accounts	2,261,294	-	2,261,294
Intergovernmental.	8,705	493,965	502,670
Loans.	1,623	-	1,623
Accrued interest	4,228	-	4,228
Interfund loans	47,937	-	47,937
Prepayments.	5,715	-	5,715
Total assets	<u>\$ 3,533,486</u>	<u>\$ 780,696</u>	<u>\$ 4,314,182</u>
Liabilities:			
Accounts payable	\$ 60,106	\$ 121,035	\$ 181,141
Accrued wages and benefits.	1,876,861	136,164	2,013,025
Compensated absences payable	30,599	-	30,599
Pension obligation payable	285,995	20,353	306,348
Intergovernmental payable	78,532	24,473	103,005
Interfund loans payable.	-	47,937	47,937
Deferred revenue	1,055,930	238,875	1,294,805
Total liabilities.	<u>3,388,023</u>	<u>588,837</u>	<u>3,976,860</u>
Fund balances:			
Nonspendable:			
Prepays.	5,715	-	5,715
Restricted:			
Food service operations	-	28,767	28,767
Targeted academic assistance	-	67,124	67,124
Other purposes.	-	213,889	213,889
Assigned:			
Student instruction	43,065	-	43,065
Student and staff support.	94,573	-	94,573
Other purposes.	1,764	-	1,764
Unassigned (deficit)	346	(117,921)	(117,575)
Total fund balances	<u>145,463</u>	<u>191,859</u>	<u>337,322</u>
Total liabilities and fund balances	<u>\$ 3,533,486</u>	<u>\$ 780,696</u>	<u>\$ 4,314,182</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Total governmental fund balances		\$ 337,322
<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.		1,396,556
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Accounts receivable	\$ 1,054,214	
Accrued interest receivable	1,716	
Intergovernmental receivable	238,875	
Total	1,294,805	1,294,805
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(901,912)
Net assets of governmental activities		\$ 2,126,771

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$ 8,046,378	\$ -	\$ 8,046,378
Contributions from private sources	12,466	5,200	17,666
Earnings on investments	17,403	280	17,683
Charges for services	-	18,230	18,230
Services provided to other entities	5,339,458	-	5,339,458
Rental income	66,428	-	66,428
Other local revenues	188,471	-	188,471
Intergovernmental - intermediate	-	332,472	332,472
Intergovernmental - state	3,266,128	824,459	4,090,587
Intergovernmental - federal	39,071	2,282,803	2,321,874
Total revenues	<u>16,975,803</u>	<u>3,463,444</u>	<u>20,439,247</u>
Expenditures:			
Current:			
Instruction:			
Regular	-	87,778	87,778
Special	4,628,122	227,709	4,855,831
Support services:			
Pupil	3,136,057	210,349	3,346,406
Instructional staff	4,215,186	2,214,176	6,429,362
Board of education	6,452	-	6,452
Administration	3,357,251	105,288	3,462,539
Fiscal	377,858	80,342	458,200
Business	682,989	-	682,989
Operations and maintenance	167,311	403,095	570,406
Pupil transportation	-	68,680	68,680
Central	83,543	30,260	113,803
Food service operations	-	32,556	32,556
Total expenditures	<u>16,654,769</u>	<u>3,460,233</u>	<u>20,115,002</u>
Excess of revenues over expenditures	<u>321,034</u>	<u>3,211</u>	<u>324,245</u>
Other financing sources:			
Sale of capital assets	286	-	286
Total other financing sources	<u>286</u>	<u>-</u>	<u>286</u>
Net change in fund balances	321,320	3,211	324,531
Fund balances (deficit) at beginning of year . .	<u>(175,857)</u>	<u>188,648</u>	<u>12,791</u>
Fund balances at end of year	<u>\$ 145,463</u>	<u>\$ 191,859</u>	<u>\$ 337,322</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK 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, 2011

Net change in fund balances - total governmental funds	\$	324,531
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 32,303	
Current year depreciation	<u>(77,285)</u>	
Total		(44,982)
 The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(2,625)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tuition	(399,532)	
Earnings on investments	1,701	
Services provided to other entities	(192,619)	
Other local revenues	(11,429)	
Intergovernmental	<u>(103,840)</u>	
Total		(705,719)
 Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(132,667)</u>
Change in net assets of governmental activities	\$	<u>(561,462)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	Investment Trust	Agency
Assets:		
Equity in pooled cash and investments	\$ 89,904,374	\$ 2,698,641
Receivables:		
Accounts	-	191,050
Intergovernmental.	-	16,763
Accrued interest.	211,676	-
Total assets.	90,116,050	\$ 2,906,454
Liabilities:		
Accounts payable.	-	\$ 176,350
Accrued wages and benefits	-	173,620
Pension obligation payable.	-	61,687
Intergovernmental payable	-	2,460,360
Due to students.	-	32,814
Loans payable	-	1,623
Total liabilities	-	\$ 2,906,454
Net assets:		
Net assets available for pool participants.	90,116,050	
Total net assets	\$ 90,116,050	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Investment Trust
Additions:	
Capital transactions.	\$ 20,499,063
Interest.	819,232
Total additions.	21,318,295
Deductions:	
Distributions to pool participants	1,184,054
Change in net assets.	20,134,241
Net assets at beginning of year	69,981,809
Net assets at end of year.	\$ 90,116,050

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - DESCRIPTION OF THE ESC

The Stark County Educational Service Center (the “ESC”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed it by the constitution and laws of the State of Ohio. The Educational Service Center is a County Board of Education as defined by Section 3313.01 of the Ohio Revised Code. The Educational Service Center supplies supervisory, administrative and other needed services to participating school districts.

The Governing Board consists of 5 members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 205 non-certified employees and 160 certified employees to provide services to students throughout the County.

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) guidance issued on or before November 30, 1989, to its governmental activities provided it does 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 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 have access to 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).

The ESC is fiscal agent for the Stark County Family Council (the “Council”). The ESC is responsible for receiving and disbursing funds at the direction of the Council. This entity is legally separate from the ESC. The ESC is fiscal agent and custodian for the Council, but is not accountable; therefore, the operations of the Council have been included as an agency fund in the ESC’s basic financial statements. The funds invested on behalf of the Council have been included in the basic financial statements as “equity in pooled cash and investments”.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

JOINTLY GOVERNED ORGANIZATIONS

Stark-Portage Area Computer Consortium (“SPARCC”) - SPARCC is a jointly governed organization which provides computer services to the school districts within the boundaries of Stark and Portage Counties. Each District’s superintendent serves as a representative on the Board, which consists of approximately 31 member districts. However, SPARCC is primarily governed by a six-member Executive Board, which is made up of three representatives from Stark County, two from Portage County, and a Treasurer. The Board meets monthly to address any current issues.

Stark County Schools Council of Governments (“COG”) - The COG is a group purchasing pool. The COG is governed by an Assembly which consists of one representative from each participating school district (usually the superintendent or designee). The Assembly elects officers for one year terms to serve as the Board of Directors. The Assembly exercises control over the operation of the COG. All COG revenues are generated from charges for services.

In the case of SPARCC and the COG, the ESC serves as fiscal agent and custodian but is not accountable; therefore the operations of SPARCC and the COG have been excluded from the ESC’s financial statements but the funds held on behalf of SPARCC are included as an agency fund and the funds held on behalf of the COG are included as an investment trust fund.

PUBLIC ENTITY RISK POOLS

Stark County Schools Council of Governments Health Benefit Plan

The Stark County Schools Council of Governments Health Benefit Plan is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Health Benefits Plan is provided through the COG. The COG is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the council. All Health Benefits Plan revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

Stark County Schools Council of Governments Workers’ Compensation Group Rating Plan

The Stark County Schools Council of Governments Workers’ Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers’ compensation. The governing body is comprised of the superintendents and the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the ESC and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to CompManagement, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on its payroll percent of the group.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Other governmental funds of the District are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

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 an investment trust fund which accounts for monies held by the ESC as fiscal agent for the COG. 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 and individuals.

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.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The investment trust fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of fiduciary net assets. The statement of changes in fiduciary net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: tuition, grants, accrued interest, 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; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the ESC (which are apportioned by the State Department of Education to each local board of education under the supervision of the ESC), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC is discretionary, the ESC continues 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 plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the object level for the general fund and at the fund level for all other funds. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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, including fiduciary 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 investments" on the basic financial statements.

During fiscal year 2011, investments were limited to federal agency securities, repurchase agreements, U.S. Government money market mutual funds and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State of Ohio 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, 2011.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2011 totaled \$17,403, which includes \$11,997 assigned from other ESC 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 are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements 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 \$2,000. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	30 years
Building and improvements	50 years
Furniture and equipment	5 - 10 years
Vehicles	5 - 10 years

H. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave 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 the balance sheet date 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 age 50 or greater with at least 10 years of service and for all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2011 and reduced to the maximum payment allowed by labor contracts and/or statute, plus any applicable additional salary related payments.

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

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

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables and accrued liabilities from the fiduciary funds are reported on the fiduciary fund statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (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.

J. Fund Balance

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

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

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

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

K. Net Assets

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

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

L. Prepayments

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

M. Estimates

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

N. Interfund Activity

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

O. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivables/payables". On the fund financial statements, amounts classified as "due to/from other funds" are used to cover negative cash balances. These amounts are eliminated in the governmental activities column of the statement of net assets. Loans between the general fund and agency funds are classified as "loans receivable/payable".

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 Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the ESC has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
EMIS	\$ 19
Public school preschool	30,662
Title VI-B	37,400
IDEA preschool handicapped	12,320
Misellaneous federal grants	37,520

The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim moneys 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

Protection of the 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all ESC deposits was \$(3,327,482), exclusive of the \$12,650,000 in repurchase agreements included in investments below. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the “zero-balance” nature of the ESC’s bank accounts. The negative carrying amount of deposits is primarily due to the sweeping of money into overnight repurchase agreements, which are reported as “investments”. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2011, \$508,890 of the ESC’s bank balance of \$867,627 was exposed to custodial risk as discussed below, while \$366,737 was covered by the FDIC.

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

B. Investments

As of June 30, 2011, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FFCB	\$ 20,987,269	\$ -	\$ 1,509,245	\$ 1,003,440	\$ 5,795,277	\$ 12,679,307
FHLB	26,628,315	800,352	2,524,350	1,019,210	2,288,862	19,995,541
FHLMC	21,019,415	502,250	-	-	2,503,185	18,013,980
FNMA	15,025,570	-	-	1,500,345	500,135	13,025,090
STAR Ohio	683,296	683,296	-	-	-	-
Repurchase agreements	12,650,000	12,650,000	-	-	-	-
U.S. Government money market funds	427,347	427,347	-	-	-	-
	<u>\$ 97,421,212</u>	<u>\$ 15,063,245</u>	<u>\$ 4,033,595</u>	<u>\$ 3,522,995</u>	<u>\$ 11,087,459</u>	<u>\$ 63,713,918</u>

The weighted average maturity of investments is 2.27 years.

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: The ESC's investments in federal agency securities and the federal agency securities that underlie the repurchase agreements were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and the U.S. Government money market funds an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The ESC's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the ESC's name. Of the ESC's investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the ESC. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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, 2011:

<u>Investment type</u>	<u>Fair value</u>	<u>% of total</u>
FFCB	\$ 20,987,269	21.54
FHLB	26,628,315	27.33
FHLMC	21,019,415	21.58
FNMA	15,025,570	15.42
STAR Ohio	683,296	0.70
Repurchase agreements	12,650,000	12.98
U.S. Government money market funds	427,347	0.45
	<u>\$ 97,421,212</u>	<u>100.00</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ (3,327,482)
Investments	<u>97,421,212</u>
Total	<u>\$ 94,093,730</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,490,715
Investment trust fund	89,904,374
Agency funds	<u>2,698,641</u>
Total	<u>\$ 94,093,730</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2011 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	\$ 47,937

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. All interfund balances are expected to be repaid within one year.

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

- B.** Interfund balances consisted of the following at June 30, 2011, as reported as loans receivable/payable on the governmental fund statements and fiduciary fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	District agency	<u>\$ 1,623</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 - RECEIVABLES

Receivables at June 30, 2011 consisted of accounts (billings to school districts for user charged services and tuition), intergovernmental grants, accrued interest and loans. All receivables are considered collectible in full. A summary of the principal items of receivables reported in the statement of net assets follows:

Governmental activities:

Accounts	\$ 2,261,294
Intergovernmental	502,670
Loans	1,623
Accrued interest	<u>4,228</u>
Total	<u>\$ 2,769,815</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance <u>06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/11</u>
Governmental activities:				
Land	\$ 111,059	\$ -	\$ -	\$ 111,059
Total capital assets, not being depreciated	<u>111,059</u>	<u>-</u>	<u>-</u>	<u>111,059</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	76,515	-	-	76,515
Buildings and improvements	1,803,661	-	-	1,803,661
Furniture and equipment	1,247,828	17,493	(412,401)	852,920
Vehicles	<u>108,157</u>	<u>14,810</u>	<u>-</u>	<u>122,967</u>
Total capital assets, being depreciated	<u>3,236,161</u>	<u>32,303</u>	<u>(412,401)</u>	<u>2,856,063</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(51,223)	(2,550)	-	(53,773)
Buildings and improvements	(603,126)	(36,320)	-	(639,446)
Furniture and equipment	(1,154,622)	(30,521)	409,776	(775,367)
Vehicles	<u>(94,086)</u>	<u>(7,894)</u>	<u>-</u>	<u>(101,980)</u>
Total accumulated depreciation	<u>(1,903,057)</u>	<u>(77,285)</u>	<u>409,776</u>	<u>(1,570,566)</u>
Governmental activities capital assets, net	<u>\$ 1,444,163</u>	<u>\$ (44,982)</u>	<u>\$ (2,625)</u>	<u>\$ 1,396,556</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Special	\$ 18,056
<u>Support services:</u>	
Instructional staff	29,236
Administration	13,976
Fiscal	2,008
Business	7,208
Central	<u>6,801</u>
Total depreciation expense	<u>\$ 77,285</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During the fiscal year 2011, the following activity occurred in governmental activities long-term obligations:

	Balance <u>06/30/10</u>	Additions	Reductions	Balance <u>06/30/11</u>	Amounts Due in <u>One Year</u>
Compensated absences	<u>\$ 862,375</u>	<u>\$ 192,328</u>	<u>\$ (122,192)</u>	<u>\$ 932,511</u>	<u>\$ 66,076</u>

Compensated absences will be paid from the fund from which the employee's salaries are paid which, for the ESC, is primarily the general fund.

NOTE 9 - 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. Shared Risk Pool

The ESC is a participant in the Stark County Schools Council of Governments ("COG") for the purpose of obtaining benefits at a reduced premium for both health care and workers' compensation.

The ESC's insurance program for health care, through the COG, is administered by Mutual Health Services Company and Aultcare Corporation. Payments are made to the COG for monthly premiums, monthly stop-loss premiums and administrative charges. The ESC is fiscal agent for the COG. The Treasurer of the ESC pays Mutual Health Services Company and Aultcare Corporation monthly for all participating districts, the actual amount of claims processed, the stop-loss premium and the administrative charges.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 - RISK MANAGEMENT - (Continued)

C. Worker's Compensation

The ESC also participates in a program with the COG to obtain workers' compensation coverage. This program is administered by CompManagement, Inc. The experience rating of each of the participating districts is calculated as one experience rate and applied to all participants in the program. Premiums paid to the Ohio Bureau of Workers' Compensation are based on this calculation. Total savings are then determined and each participant's performance is compared to the overall savings percentage of the program. The districts will then either receive money back or be required to contribute additional money to the Program.

NOTE 10 - PENSION PLANS

A. School Employees Retirement System

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

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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$520,464, \$520,221 and \$353,777, respectively; 88.72 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 - PENSION PLANS - (Continued)

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

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

Funding Policy - For fiscal year 2011, 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, 2011, 2010 and 2009 were \$1,019,505, \$989,529 and \$948,907, respectively; 85.63 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$28,811 made by the ESC and \$20,579 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Media/Financial Reports*".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

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

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$156,479, \$113,196 and \$266,027, respectively; 88.72 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$33,493, \$30,936 and \$29,190, respectively; 88.72 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, 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, 2011, 2010 and 2009 were \$78,423, \$76,118 and \$72,993, respectively; 85.63 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

NOTE 12 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the ESC.

B. Litigation

There are no claims or lawsuits pending against the ESC that, upon ultimate disposition, would have a material effect, if any, on the financial condition of the ESC.

NOTE 13 - RELATED PARTY TRANSACTIONS

During fiscal year 2011, the ESC received fees in the amount of \$554,966 for fiscal agent services provided to the Stark County Schools Council of Governments.

The ESC also serves as fiscal agent for Stark Portage Area Computer Consortium (SPARCC). In lieu of fiscal agent fees, the ESC receives computer services from SPARCC at no charge.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 14 - INVESTMENT POOL

The ESC serves as fiscal agent for the Stark County Schools Council of Governments (COG) which is a legally separate entity. Investments are specifically purchased in the name of COG. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The COG earns interest on investments purchased in the name of the COG. This activity makes up the external portion of the investment pool.

During fiscal year 2011, investments were limited to federal agency securities, STAR Ohio, repurchase agreements and U.S. Government money market funds. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

Condensed financial information for the investment pool follows:

Statement of Net Assets
June 30, 2011

Assets	
Equity in pooled cash and investments	\$ 94,093,730
Accrued interest receivable	215,904
	<u>94,309,634</u>
<i>Total assets</i>	<u>94,309,634</u>
Net assets held in trust for pool participants	
External portion	90,116,050
Internal portion	4,193,584
	<u>94,309,634</u>
<i>Total net assets held in trust for pool participants</i>	<u>\$ 94,309,634</u>

Condensed financial information for the investment pool follows:

Statement of Changes in Net Assets
June 30, 2011

Additions	
Interest	\$ 838,845
Capital transactions	21,298,324
	<u>22,137,169</u>
<i>Total additions</i>	<u>22,137,169</u>
Deductions	
Distributions to participants	844,041
	<u>844,041</u>
<i>Total deductions</i>	<u>844,041</u>
<i>Change in net assets</i>	21,293,128
<i>Net assets, beginning of year</i>	73,016,506
	<u>94,309,634</u>
<i>Net assets, end of year</i>	<u>\$ 94,309,634</u>

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 14 - INVESTMENT POOL - (Continued)

Deposits and investments of the investment pool mirror those of the ESC. There are no differences between the deposits and investments of the ESC and those of the investment pool. See Note 4 for the disclosures related to investment risk as established in GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

NOTE 15 - 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.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition.	\$ 7,770,000	\$ 7,770,000	\$ 8,060,283	\$ 290,283
Contributions from private sources	15,500	15,500	12,466	(3,034)
Earnings on investments.	45,000	45,000	27,982	(17,018)
Services provided to other entities.	5,345,762	5,345,762	5,143,924	(201,838)
Rental income.	73,000	73,000	67,763	(5,237)
Other local revenues.	173,540	173,540	189,779	16,239
Intergovernmental - State	3,264,124	3,264,124	3,266,128	2,004
Intergovernmental - Federal.	41,000	41,000	36,352	(4,648)
Total revenue	<u>16,727,926</u>	<u>16,727,926</u>	<u>16,804,677</u>	<u>76,751</u>
Expenditures:				
Current:				
Instruction:				
Special.	4,779,788	4,779,788	4,841,954	(62,166)
Support services:				
Pupil.	3,056,513	3,056,513	2,914,644	141,869
Instructional staff	4,330,307	4,330,307	4,303,897	26,410
Board of education	26,407	26,407	7,901	18,506
Administration.	3,325,929	3,325,929	3,367,429	(41,500)
Fiscal	389,218	389,218	381,217	8,001
Business	804,475	804,475	732,727	71,748
Operations and maintenance.	240,880	240,880	184,190	56,690
Central.	51,000	51,000	99,493	(48,493)
Total expenditures	<u>17,004,517</u>	<u>17,004,517</u>	<u>16,833,452</u>	<u>171,065</u>
Excess of expenditures over revenues.	<u>(276,591)</u>	<u>(276,591)</u>	<u>(28,775)</u>	<u>247,816</u>
Other financing sources (uses):				
Refund of prior year expenditures	50,000	50,000	7,734	(42,266)
Advances in.	500,000	500,000	458,776	(41,224)
Advances (out)	(500,000)	(500,000)	(406,252)	93,748
Sale of capital assets.	1,000	1,000	286	(714)
Total other financing sources (uses)	<u>51,000</u>	<u>51,000</u>	<u>60,544</u>	<u>9,544</u>
Net change in fund balance	(225,591)	(225,591)	31,769	257,360
Fund balance at beginning of year	810,812	810,812	810,812	-
Prior year encumbrances appropriated	190,803	190,803	190,803	-
Fund balance at end of year.	<u>\$ 776,024</u>	<u>\$ 776,024</u>	<u>\$ 1,033,384</u>	<u>\$ 257,360</u>

SEE ACCOMPANYING BUDGETARY NOTES

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - BUDGETARY PROCESS

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

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

The ESC's Governing Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the object level for the general fund and at the fund level for all other funds.

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in 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.

The schedule of revenue, expenditures, and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the 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	\$ 31,769
Net adjustment for revenue accruals	171,126
Net adjustment for expenditure accruals	11,123
Net adjustment for other sources/uses	(60,258)
Adjustment for encumbrances	<u>167,560</u>
GAAP basis	<u>\$ 321,320</u>

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**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Cash Receipts	Cash Disbursements
<u>United States Department of Education</u> <i>(Passed-through the Ohio Department of Education)</i>				
Special Education Cluster:				
Special Education: Preschool Grant	49825-PG-S1-2011	84.173	106,230	117,469
	49825-PG-S1-2010		40,000	41,765
Total Special Education: Preschool Grant			146,230	159,234
Special Education: Grants to States	49825-6B-S1-2011	84.027	1,149,283	1,149,726
	49825-6B-S1-2010		159,193	117,041
Total Special Education: Grants to States			1,308,476	1,266,767
Total Special Education Cluster			1,454,706	1,426,001
Even Start: State Educational Agencies	49825-EV-S1-2011	84.213	99,667	93,157
	49825-EV-S1-2010		18,795	25,634
Total Even Start: State Educational Agencies			118,462	118,791
Twenty-First Century Community Learning Centers	2011	84.287	24,700	24,700
English Language Acquisition Grants	49825-T3-S1-2011	84.365	46,837	39,840
	49825-T3-S1-2010		4,497	8,214
Total English Language Acquisition Grants			51,334	48,054
Improving Teacher Quality State Grants	2011	84.367	20,000	1,249
ARRA - Title I Grants to Local Educational Agencies	2011	84.389	2,390	2,390
Special Education - State Personnel Development	2011	84.323	119,814	134,722
	2010		2,918	5,981
Total Special Education - State Personnel Development			122,732	140,703
<i>(Direct)</i>				
Fund for the Improvement of Education	2011	84.215	197,328	197,953
	2010		18,867	17,590
	2009		25,152	23,972
			241,347	239,515
Total U.S. Department of Education			2,035,671	2,001,403
<u>United States Department of Health and Human Services</u> <i>(Passed-through the Stark County Commissioners)</i>				
Temporary Assistance for Needy Families	N/A	93.558	214,915	269,538
Medical Assistance Program (CAFS MR/DD)	N/A	93.778	432	-
<u>United States Department of Agriculture</u> <i>(Passed-through the Ohio Department of Education)</i>				
Child Nutrition Cluster:				
National School Lunch Program	N/A	10.555	14,507	14,507
Total Child Nutrition Cluster			14,507	14,507
Child and Adult Care Food Program	N/A	10.558	35,920	35,920
			50,427	50,427
Total U.S. Department of Agriculture				
<u>United States Environmental Protection Agency</u> <i>(Direct)</i>				
National Clean Diesel Emissions Reduction Program	N/A	66.039	82,542	82,542
			\$ 2,383,987	\$ 2,403,910
Totals				

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

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C - MATCHING REQUIREMENTS

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



Dave Yost • Auditor of State

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

Stark County Educational Service Center
Stark County
2100 38th Street NW
Canton, OH 44709

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stark County Educational Service Center, Stark County, Ohio, (the Service Center) as of and for the year ended June 30, 2011, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated February 3, 2012. We noted the Service Center adopted Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and governmental Fund Type Definitions. 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 Service Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the Service Center's management in a separate letter dated February 3, 2012.

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

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

Dave Yost
Auditor of State

February 3, 2012



Dave Yost • Auditor of State

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

Stark County Educational Service Center
Stark County
2100 38th Street NW
Canton, OH 47709

To the Governing Board:

Compliance

We have audited the compliance of the Stark County Educational Service Center, Stark County, Ohio (the Service Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Service Center's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the Service Center's major federal programs. The Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

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

In our opinion, the Stark County Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The Service Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over compliance.

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www.auditor.state.oh.us

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

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

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

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

Dave Yost
Auditor of State

February 3, 2012

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
June 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Preschool Grant, CFDA #84.173; Special Education Grants to States, CFDA #84.027; Temporary Assistance for Needy Families, CFDA # 93.558
<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?	Yes

**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

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Dave Yost • Auditor of State

STARK COUNTY EDUCATIONAL SERVICE CENTER

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 8, 2012