

Dave Yost • Auditor of State

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Six District Educational Compact
Summit County
2386 Hudson-Aurora Road
Hudson, Ohio 44236

To the Executive Committee:

We have audited the accompanying financial statements of the governmental activities and each major fund of Six District Educational Compact, Summit County, Ohio (the Compact), as of and for the year ended June 30, 2011, which collectively comprise the Compact's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Compact'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.

As discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities and each major fund of Six District Educational Compact, Summit County, Ohio, as of June 30, 2011, and the respective changes in cash financial position thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

As describe in Note 2, during 2011, Six District Educational Compact restated its July 1, 2010 governmental fund balances due to changes in fund structure as a result of implementing the provisions of the 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 December 9, 2011, on our consideration of the Compact'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.



Dave Yost
Auditor of State

December 9, 2011

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY**

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

The management's discussion and analysis of the Six District Educational Compact (the "Compact") financial performance provides an overall review of the Compact's financial activities for the fiscal year ended June 30, 2011, within the limitations of the Compact's cash basis of accounting. The intent of this discussion and analysis is to look at the Compact's financial performance as a whole; readers should also review the cash-basis basic financial statements and the notes to the financial statements to enhance their understanding of the Compact's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- The total net cash assets of the governmental activities increased \$10,578 at June 30, 2011, which represents a 7.96% increase from fiscal year 2010.
- For fiscal year 2011, the Compact had \$1,381,647 in cash disbursements related to governmental activities; the entire amount of these cash disbursements were offset by program specific charges for services, grants or contributions.
- The Compact's major funds are the general fund, other local grants fund and the vocational education grants fund. The general fund had cash receipts of \$1,077,387 in 2011. The cash disbursements of the general fund totaled \$1,061,943 in 2011. The general fund cash balance increased \$15,444 from 2010 to 2011.
- The other local grants fund, a Compact major fund, had cash disbursements of \$1,418 resulting in a decrease in fund cash balance of \$1,418 from 2010 to 2011.
- The vocational education grants fund, a Compact major fund, had cash receipts of \$314,838 and cash disbursements of \$318,286. The vocational education grants fund cash balance decreased \$3,448 from 2010 to 2011.

Using These Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Compact's cash basis of accounting.

The statement of net assets - cash basis and statement of activities - cash basis provides information about the activities of the whole Compact, presenting both an aggregate view of the Compact's cash basis 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 Compact's most significant funds and in the case of the Compact, all three governmental funds - the general fund, other local grants fund, and the vocational education grants fund - are reported as major funds.

Reporting the Compact as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets - cash basis and the statement of activities - cash basis answer the question, "How did we do financially during 2011?" These statements include *only net assets* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY**

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

These two statements report the Compact's net assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the Compact as a whole, the cash basis financial position of the Compact has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Compact's facility conditions, mandated federal and state programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net assets - cash basis and the statement of activities - cash basis, the governmental activities includes the Compact's programs and services including instruction, and support services.

The statement of net assets - cash basis and the statement of activities - cash basis can be found on pages 10-11 of this report.

Reporting the Compact's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Compact, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Compact can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The Compact has no proprietary or fiduciary funds.

Fund financial reports provide detailed information about the Compact's major funds. The Compact uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Compact's most significant funds. The Compact's major governmental funds are the general fund, other local grants fund and the vocational education grants fund. The analysis of the Compact's major governmental funds begins on page 8.

Governmental Funds

All of the Compact'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 the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the Compact's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various Compact programs. Since the Compact is reporting on the cash basis of accounting, there are no differences in the net assets and fund cash balances or changes in net assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. The governmental fund statements can be found on pages 12-13 of this report.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY**

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

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-20 of this report.

Government-Wide Financial Analysis

Recall that the statement of net assets - cash basis provides the perspective of the Compact as a whole.

The table below provides a summary of the Compact's net cash assets for 2011 and 2010, respectively.

	Net Cash Assets	
	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 143,408	\$ 132,830
Total assets	<u>143,408</u>	<u>132,830</u>
<u>Net Assets</u>		
Restricted	35,805	86,082
Unrestricted	<u>107,603</u>	<u>46,748</u>
Total net assets	<u>\$ 143,408</u>	<u>\$ 132,830</u>

The total net cash assets of the Compact's governmental activities increased \$10,578 from fiscal year 2010 to 2011. The balance of government-wide unrestricted net cash assets at June 30, 2011 of \$107,603 may be used to meet the Compact's ongoing obligations.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY**

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

The table below shows the changes in net cash assets for fiscal year 2011 and 2010.

	Change in Net Cash Assets	
	Governmental Activities	Governmental Activities
	<u>2011</u>	<u>2010</u>
Cash Receipts:		
Program cash receipts:		
Charges for services	\$ 1,071,607	\$ 977,399
Operating grants and contributions	<u>320,618</u>	<u>331,809</u>
Total program cash receipts	<u>1,392,225</u>	<u>1,309,208</u>
Cash Disbursements:		
Current:		
Instruction:		
Regular	3,977	10,636
Vocational	796,029	709,145
Other	2,040	3,609
Support services:		
Pupil	166,069	155,610
Instructional staff	243,880	250,727
Administration	-	22,741
Operations and maintenance	-	150
Central	1,418	4,118
Pass-through	<u>168,234</u>	<u>145,112</u>
Total cash disbursements	<u>1,381,647</u>	<u>1,301,848</u>
Change in net cash assets	10,578	7,360
Net cash assets at beginning of year	<u>132,830</u>	<u>125,470</u>
Net cash assets at end of year	<u>\$ 143,408</u>	<u>\$ 132,830</u>

Governmental Activities

Governmental net cash assets increased \$10,578 in 2011 from 2010. For 2011, total governmental cash disbursements of \$1,381,647 were offset by program cash receipts of \$1,392,225.

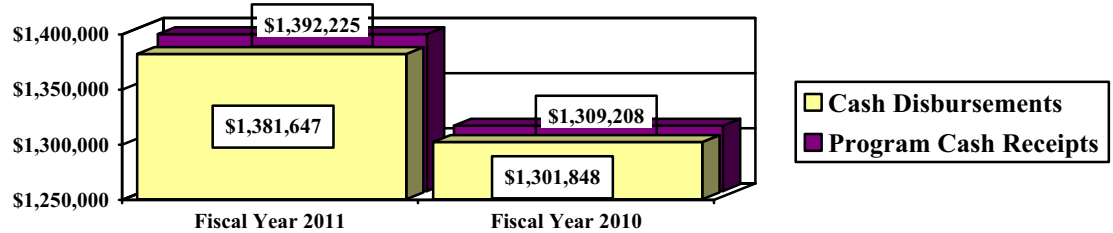
The primary sources of cash receipts for governmental activities are derived from charges for services. These sources represent 76.97% of total governmental program cash receipts for 2011.

The largest cash disbursement of the Compact is for instructional activities. These cash disbursements totaled \$802,046 or 58.05% of total governmental cash disbursements for fiscal year 2011.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY**

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

Governmental Activities – Program Cash Receipts vs. Total Cash Disbursements



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 for 2011 and 2010.

Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Cash disbursements:				
Current:				
Instruction:				
Regular	\$ 3,977	\$ (402)	\$ 10,636	\$ 3,732
Vocational	796,029	-	709,145	-
Other	2,040	(206)	3,609	1,266
Support services:				
Pupil	166,069	(115)	155,610	(4,915)
Instructional staff	243,880	(12,802)	250,727	(6,031)
Administration	-	-	22,741	3,153
Operations and maintenance	-	-	150	52
Central	1,418	1,418	4,118	492
Pass-through	168,234	1,529	145,112	(5,109)
Total	<u>\$ 1,381,647</u>	<u>\$ (10,578)</u>	<u>\$ 1,301,848</u>	<u>\$ (7,360)</u>

The dependence upon program cash receipts for governmental activities is apparent; with all of cash disbursements supported through program cash receipts from charges for services and operating grants and contributions during 2011.

Financial Analysis of the Government's Funds

As noted earlier, the Compact uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY**

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

Governmental Funds

The Compact's governmental funds are accounted for using the cash basis of accounting.

The Compact's governmental funds reported a combined fund cash balance of \$143,408, which is \$10,578 above the 2010 fund cash balance of \$132,830. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2011 and 2010, for all governmental funds. Fund cash balance at June 30, 2010 has been restated as described in Note 2.

	Fund Cash Balance		
	<u>June 30, 2011</u>	(Restated) <u>June 30, 2010</u>	Increase <u>(Decrease)</u>
Major Funds:			
General	\$ 107,603	\$ 92,159	\$ 15,444
Other Local Grants	29,604	31,022	(1,418)
Vocational Education Grant	<u>6,201</u>	<u>9,649</u>	<u>(3,448)</u>
 Total	 <u>\$ 143,408</u>	 <u>\$ 132,830</u>	 <u>\$ 10,578</u>

General Fund

The general fund, a Compact major fund, had cash receipts of \$1,077,387 in 2011. The primary source of revenue in the general fund is charges for services. The cash disbursements of the general fund totaled \$1,061,943 in 2011. The two major cash disbursement expenditures are for vocational instruction costs and instructional staff costs. The general fund's cash balance increased \$15,444 from 2010 to 2011.

Other Local Grants Fund

The other local grants fund, a Compact major fund, had no cash receipts and cash disbursements for central support services expenditures of \$1,418 in 2011. The other local grants fund cash balance decreased \$1,418 from 2010 to 2011.

Vocational Education Grants Fund

The vocational education grants fund, a Compact major fund, had cash receipts of \$314,838 in 2011. These receipts were all intergovernmental federal revenue. The vocational education grants fund had cash disbursements of \$318,286 in 2011. The vocational education grants fund cash balance decreased \$3,448 from 2010 to 2011.

Capital Assets and Debt Administration

Capital Assets

The Compact does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The Compact had no capital outlay disbursements during fiscal year 2011.

Debt Administration

The Compact had no long-term debt obligations outstanding at June 30, 2011.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY**

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

Current Financial Related Activities

Since its inception, the Compact continues to provide Career/College tech prep programming to its six member districts in a manner that is more cost effective than the typical joint vocational school model. The six districts routinely come together to evaluate current programming and search for cost-effective solutions to additional educational demands and mandates. The ability to generate support from local agencies and higher education, including both the University of Akron and Kent State University, to explore and develop innovative programs continues to be a core strategy. The six member districts are committed to the continued effort to control expenses while providing exceptional programming.

Contacting the Compact's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Compact's finances and to show the Compact's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer of the Six District Educational Compact, 2386 Hudson-Aurora Road, Hudson, Ohio 44236.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY**

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 143,408
Total assets	143,408
Net assets:	
Restricted for:	
Locally funded programs.	29,604
Federally funded programs	6,201
Unrestricted	107,603
Total net assets	\$ 143,408

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY**

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

	Program Cash Receipts			Net (Cash Disbursements) Cash Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Current:				
Instruction:				
Regular	\$ 3,977	\$ 3,470	\$ 909	\$ 402
Vocational	796,029	796,029	-	-
Other	2,040	1,780	466	206
Support services:				
Pupil	166,069	11,692	154,492	115
Instructional staff	243,880	256,352	330	12,802
Central	1,418	-	-	(1,418)
Pass-through	168,234	2,284	164,421	(1,529)
Totals	\$ 1,381,647	\$ 1,071,607	\$ 320,618	10,578
				10,578
				132,830
				\$ 143,408

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY**

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Other Local Grants	Vocational Education Grants	Total Governmental Funds
Cash assets:				
Equity in pooled cash and cash equivalents . .	\$ 107,603	\$ 29,604	\$ 6,201	\$ 143,408
Total assets	<u>\$ 107,603</u>	<u>\$ 29,604</u>	<u>\$ 6,201</u>	<u>\$ 143,408</u>
Fund cash balances:				
Restricted:				
Vocational instruction	\$ -	\$ -	\$ 6,201	\$ 6,201
Other purposes	-	29,604	-	29,604
Assigned:				
Student and staff support	52,939	-	-	52,939
Unassigned	54,664	-	-	54,664
Total fund cash balances	<u>\$ 107,603</u>	<u>\$ 29,604</u>	<u>\$ 6,201</u>	<u>\$ 143,408</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	Other Local Grants	Vocational Education Grants	Total Governmental Funds
Cash receipts:				
From local sources:				
Classroom materials and fees	\$ 3,625	\$ -	\$ -	\$ 3,625
Charges for services	1,067,982	-	-	1,067,982
Contributions and donations.	5,780	-	-	5,780
Intergovernmental - federal	-	-	314,838	314,838
Total cash receipts.	1,077,387	-	314,838	1,392,225
Cash disbursements:				
Current:				
Regular	3,977	-	-	3,977
Vocational	796,029	-	-	796,029
Other.	2,040	-	-	2,040
Support services:				
Pupil	13,399	-	152,670	166,069
Instructional staff	243,880	-	-	243,880
Central	-	1,418	-	1,418
Pass-through.	2,618	-	165,616	168,234
Total cash disbursements	1,061,943	1,418	318,286	1,381,647
Excess (deficiency) of cash receipts over (under) cash disbursements	15,444	(1,418)	(3,448)	10,578
Fund cash balances at beginning of year (restated) .	92,159	31,022	9,649	132,830
Fund cash balances at end of year	\$ 107,603	\$ 29,604	\$ 6,201	\$ 143,408

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY, OHIO**

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Entity

The Six District Educational Compact, Summit County, (the "Compact") is a body politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution of the State of Ohio. The Compact began operating as a Regional Council of Governments effective July 1, 1998, as defined by Chapter 167 of the Ohio Revised Code.

The Compact is a jointly governed organization consisting of six participating school districts: Cuyahoga Falls City School District, Hudson City School District, Kent City School District, Stow-Monroe Falls City School District, Tallmadge City School District and Woodridge Local School District, to provide for the vocational and special education needs of their students. Students may attend any vocational or special education class offered by any of the six individual school districts in which the student resides; the school district of residence pays an instructional fee to the school district that offers the class. All cash receipts are generated from charges for services and operating grants and contributions.

The Compact operates under the direction of a six member executive committee that is comprised of the superintendent from each of the participating school districts. The committee exercises total control over the operation of the Compact, including contracting and designating management. The Compact is not required to budget in accordance with the Ohio Revised Code, and its Board has also not adopted a budget. The Treasurer of Hudson City School District administers the grants, tuition reimbursement operations of the Compact and the administrative operations of the Compact. The executive director of the Compact is an employee of Hudson City School District, but her salary is reimbursed to the Hudson City School District by the Compact.

The Compact provides a permanent forum for discussion and study of problems of mutual interest and concern to its member school districts, and develops policies and action recommendations for implementation either by the Compact itself, or by one or more of its member school districts.

B. Basis of Accounting

The Compact chooses to prepare its financial statements and notes on the basis of cash receipts and disbursements (cash basis). The cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

C. Fund Accounting

The Compact uses funds to maintain its financial records during the year. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts. The Compact classifies each fund as governmental, proprietary or fiduciary. The Compact reports only governmental funds.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY, OHIO**

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Governmental Funds - The Compact classifies funds financed primarily from intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the Compact's major governmental funds:

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

Other local grants fund - This fund is used to account for local grants that are legally restricted to expenditures for specific purposes.

Vocational education grants fund - This fund is used to account for federal money passed through the Ohio Department of Education for vocational educational classes.

D. Basis of Presentation and Measurement Focus

Government-wide Statement of Activities - Cash Basis - This statement displays information about the Compact as a whole. The government-wide statement of activities - cash basis compares disbursements with program receipts for each function or program of the Compact's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Compact. The Compact has no general receipts. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the cash basis or draws from the general receipts of the Compact.

Fund Financial Statements - Fund financial statements report detailed information about the Compact. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

E. Fiscal Agent

The Compact designates an Administrative Agent for all funds received in the name of the Compact. The Hudson City School District acts as the Administrative and Fiscal Agent. The Compact's funds are maintained in separate funds with the fiscal agent.

F. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY, OHIO**

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Fund Balance

The Compact reports classifications of fund balance based on the extent to which the Compact is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The following categories are used:

Nonspendable - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally required to be maintained intact.

Restricted - amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Compact's highest level of decision-making authority, the executive committee.

Assigned - amounts that are constrained by the Compact's intent to be used for specific purpose, but are neither restricted nor committed. Assigned amounts include those approved through the Compact's formal purchasing procedure by the Treasurer. Through the Compact's purchasing policy, the executive committee has given the Treasurer the authority to constrain monies for intended purposes.

Unassigned - residual fund balance within the general fund that is in spendable form that is not restricted, committed, or assigned.

The Compact applies restricted resources first when an expense is incurred for purposes for which restricted and unrestricted fund balance is available. The Compact considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

H. Net Assets

Net assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The Compact applies restricted resources first when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY, OHIO**

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

NOTE 2 - RESTATEMENT OF FUND CASH BALANCE

A fund reclassification is required in order to report funds in accordance with GASB Statement No 54. The fund reclassification had the following effect on the Compact's governmental fund cash balances as previously reported:

	General	Support Services	Other Local Grants	Vocational Education Grants	Total Governmental Funds
Fund balance as previously reported	\$ 46,748	\$ 45,411	\$ 31,022	\$ 9,649	\$ 132,830
Fund reclassification:					
Support services	<u>45,411</u>	<u>(45,411)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restated fund balance at July 1, 2010	<u>\$ 92,159</u>	<u>\$ -</u>	<u>\$ 31,022</u>	<u>\$ 9,649</u>	<u>\$ 132,830</u>

NOTE 3 - EQUITY IN POOLED CASH

The Hudson City School District maintains a depository which includes the funds of the Compact. The Ohio Revised Code prescribes allowable deposits and investments. The Compact's carrying amount of cash on deposit with the fiscal agent at June 30, 2011 was \$143,408. The fiscal agent for the Compact is responsible for maintaining adequate depository collateral for all funds in the Hudson City School District's investment accounts.

NOTE 4 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Compact 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 *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Compact is required to contribute at an actuarially determined rate. The current Compact rate is 14 percent of annual covered payroll. A portion of the Compact'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 Compact's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$4,795, \$5,231 and \$3,656, respectively.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY, OHIO**

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

NOTE 4 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

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

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

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 Compact 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 Compact's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$12,020, \$12,020 and \$11,915, respectively.

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 Board of Education have elected Social Security. The Compact's liability is 6.2 percent of wages paid.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY, OHIO**

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

NOTE 5 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Compact 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 *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board 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 Compact's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$581, \$188 and \$1,673, respectively.

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 Compact's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$309, \$311 and \$302, respectively.

**SIX DISTRICT EDUCATIONAL COMPACT
SUMMIT COUNTY, OHIO**

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

NOTE 5 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Compact's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$925, \$925 and \$909, respectively.

NOTE 6 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 7 - RISK MANAGEMENT

The Compact maintains comprehensive commercial insurance coverage for risks related to property loss or damage and general liability, through Hudson City School District.



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*

Six District Educational Compact
Summit County
2386 Hudson-Aurora Road
Hudson, Ohio 44236

To the Executive Committee:

We have audited the financial statements of the governmental activities and each major fund of Six District Educational Compact, Summit County, Ohio (the Compact) as of and for the year ended June 30, 2011, which collectively comprise the Compact's basic financial statements and have issued our report thereon dated December 9, 2011, wherein we noted the Compact uses a comprehensive accounting basis other than generally accepted accounting principles. In addition, we noted the District restated governmental fund balances due to implementing GASB Statement 54. 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 Compact'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 Compact's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Compact'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 Compact'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 Compact'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 Compact's management in a separate letter dated December 9, 2011.

We intend this report solely for the information and use of management and members of the Executives Committee of the Compact, and others within the Compact. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

December 9, 2011



Dave Yost • Auditor of State

SIX DISTRICT EDUCATIONAL COMPACT

SUMMIT 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
DECEMBER 29, 2011