



Dave Yost • Auditor of State

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Logan County Educational Service Center
Logan County
121 South Opera Street
Bellefontaine, Ohio 43311

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Logan County Educational Service Center, Logan County, Ohio (the Center), as of and for the fiscal year ended June 30, 2011, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 Logan County Educational Service Center, Logan County, Ohio, as of fiscal year end June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17, during the year ended June 30, 2011, the District 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 January 3, 2012, on our consideration of the 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.

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

January 3, 2012

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

The discussion and analysis of the financial performance of Logan County Educational Service Center (the Center) provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- In total, net assets increased \$62,226.
- Program specific revenues, in the form of charges for services and operating grants and contributions, accounted for \$3,308,883, or 91 percent of total revenues.
- The Center had \$3,576,015 in total expenses, 93 percent of which was offset by program specific charges for services and operating grants and contributions.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Center's operations and activities as a whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole Center, presenting both an aggregate view of the finances of the Center and a longer-term view of those finances. Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and the available funds for long-term future spending. The fund financial statements also look at the Center's most significant funds with all other nonmajor funds presented in total in a single column. This level of detail is meant to enhance the financial statements.

Reporting the Logan County Educational Service Center as a Whole

The statement of net assets and the statement of activities reflect how the Center did financially during fiscal year 2011. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the Center's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Center as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors. Factors can be financial or non-financial. Non-financial factors include mandated educational programs, as well as locally requested programs.

All of the Center's programs and services provided are reported as governmental activities. These activities include: instruction, support services, and non-instructional services.

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

Reporting the Center's Most Significant Funds

Fund financial statements provide detailed information about the Center's major funds, which includes the General Fund and the Alternative School Fund.

All of the Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Center's operations and the basic services it provides.

The relationship, or differences, between governmental activities reported on the statement of net assets and the statement of activities and in the governmental funds is reconciled in the financial statements.

Reporting the Center's Fiduciary Responsibilities

The Center acts as a fiscal agent for another entity. This activity is reported in an agency fund. The Center's fiduciary activities are reported in separate statement of fiduciary net assets. This activity is excluded from the Center's other financial statements because the assets cannot be utilized by the Center 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.

The Center as a Whole

Table 1 provides a summary of the Center's net assets for fiscal year 2011 compared to fiscal year 2010.

Table 1		
Net Assets		
Governmental Activities		
	2011	2010
Assets:		
Current and Other Assets	\$1,075,960	\$1,036,005
Capital Assets, Net	35,086	37,374
Total Assets	1,111,046	1,073,379
Liabilities:		
Current and Other Liabilities	355,949	364,223
Long-Term Liabilities	86,964	103,249
Total Liabilities	442,913	467,472
Net Assets:		
Invested in Capital Assets, Net of Related Debt	35,086	37,374
Restricted for Special Purposes	352,348	304,722
Unrestricted (Deficit)	280,699	263,811
Total Net Assets	\$ 668,133	\$ 605,907

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

Table 2 reflects the changes in net assets for fiscal year 2011 compared to fiscal year 2010.

**Table 2
Change in Net Assets
Governmental Activities**

	2011	2010
Revenues		
Program Revenues:		
Charges for Services and Sales	\$3,252,512	\$3,240,922
Operating Grants, Contributions and Interest	56,371	12,486
General Revenues:		
Grants and Entitlements	240,137	292,727
Gifts and Donations	20,290	19,453
Interest	397	575
Miscellaneous	68,534	47,706
Total Revenues	<u>3,638,241</u>	<u>3,613,869</u>
Program Expenses:		
Instruction:		
Special	2,251,636	2,195,687
Support Services:		
Pupils	500,570	485,230
Instructional Staff	306,250	257,282
Board of Education	12,045	15,609
Administration	151,749	163,220
Fiscal	276,621	324,449
Operation and Maintenance of Plant	9,088	8,689
Central	28,968	30,610
Non-Instructional	38,963	37,213
Extracurricular Activities	125	398
Total Expenses	<u>3,576,015</u>	<u>3,518,387</u>
Increase (Decrease) in Net Assets	<u>\$ 62,226</u>	<u>\$ 95,482</u>

The total revenues and total expenses increased in fiscal year 2011 which resulted in an increase in net assets for fiscal year 2011.

Table 3 indicates the total cost of services and the net cost of services. The statement of activities reflects the cost of program services and the charges for services and operating grants and contributions offsetting those services.

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

**Table 3
Cost of Services**

	<u>Total Cost of Services</u> <u>2011</u>	<u>Net Cost of Services</u> <u>2011</u>	<u>Total Cost of Services</u> <u>2010</u>	<u>Net Cost of Services</u> <u>2010</u>
Instruction:				
Special	\$2,251,636	(\$766,420)	\$2,195,687	(\$811,253)
Support Services:				
Pupils	500,570	473,570	485,230	324,714
Instructional Staff	306,250	81,859	257,282	174,616
Board of Education	12,045	12,045	15,609	15,609
Administration	151,749	147,749	163,220	159,934
Fiscal	276,621	241,185	324,449	324,449
Operation and Maintenance of Plant	9,088	9,088	8,689	8,689
Central	28,968	28,968	30,610	30,610
Non-Instructional	38,963	38,963	37,213	37,213
Extracurricular Activities	125	125	398	398
Total Expenses	<u>\$3,576,015</u>	<u>\$267,132</u>	<u>\$3,518,387</u>	<u>\$264,979</u>

During fiscal year 2011, program revenues were adequate to cover instruction activities. For all governmental activities, support from general revenues is 7 percent.

The Center's Funds

The Center's governmental funds are accounted for using the modified accrual basis of accounting. The Center had two major funds, the General Fund and the Alternative School Fund, which comprised 95 percent of the total governmental fund assets. All governmental funds had total revenues of \$3,638,241 and expenditures of \$3,590,012.

General Fund – this fund, the Center's largest major fund, had receipts of \$2,643,172 and expenditures of \$2,642,569 in 2011. The fund balance increased \$603 from 2010 to 2011.

Alternative Schools Fund – this fund had receipts of \$917,083 and expenditures of \$863,613. The balance in this fund increased \$53,470 from 2010 to 2011 as a result of an increase in student enrollment from 2010 to 2011.

Capital Assets

At the end of fiscal year 2011, the Center had \$35,086 invested in capital assets (net of accumulated depreciation). For further information regarding the Center's capital assets, see the notes to the basic financial statements.

Debt

The Center had no debt in fiscal year 2011. The only long-term obligations of the Center are related to compensated absences. For further information regarding the Center's long-term obligations, see the notes to the basic financial statements.

Current Issues

The Logan County Commissioner will continue to provide us with office space at no cost.

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

Contacting the Center's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Center's finances and to reflect accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Sara Tracey, Treasurer, Logan County Educational Service Center, 121 South Opera Street, Bellefontaine, Ohio 43311.

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**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$943,372
Accrued Interest Receivable	39
Accounts Receivable	132,549
Depreciable Capital Assets, Net	35,086
Total Assets	1,111,046
 Liabilities:	
Accounts Payable	30,169
Accrued Wages and Benefits Payable	265,226
Intergovernmental Payable	60,554
Long Term Liabilities:	
Due Within One Year	35,527
Due in More Than One Year	51,437
Total Liabilities	442,913
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	35,086
Restricted for Other Purposes	352,348
Unrestricted	280,699
Total Net Assets	\$668,133

See Accompanying Notes to Basic Financial Statements.

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants, Contributions, and Interest</u>
			<u>Governmental Activities</u>
Governmental Activities:			
Instruction:			
Special	\$2,251,636	\$2,966,960	\$51,096
Support Services:			
Pupils	500,570	27,000	(473,570)
Instructional Staff	306,250	223,116	1,275
Board of Education	12,045		(12,045)
Administration	151,749		4,000
Fiscal	276,621	35,436	(241,185)
Operation and Maintenance of Plant	9,088		(9,088)
Central	28,968		(28,968)
Non-Instructional Services	38,963		(38,963)
Extracurricular Activities	125		(125)
Total Governmental Activities	<u>\$3,576,015</u>	<u>\$3,252,512</u>	<u>\$56,371</u>
General Revenues:			
Grants and Entitlements not Restricted to Specific Programs			240,137
Gifts and Donations			20,290
Investment Earnings			397
Miscellaneous			68,534
Total General Revenues			<u>329,358</u>
Change in Net Assets			62,226
Net Assets Beginning of Year			605,907
Net Assets End of Year			<u>\$668,133</u>

See Accompanying Notes to Basic Financial Statements.

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General Fund</u>	<u>Alternative School</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$576,647	\$308,772	\$57,953	\$943,372
Accrued Interest Receivable	39			39
Accounts Receivable	27,413	105,136		132,549
Interfund Receivable	23,740			23,740
Total Assets	<u>627,839</u>	<u>413,908</u>	<u>57,953</u>	<u>1,099,700</u>
Liabilities:				
Accounts Payable	17,083	2,060	11,026	30,169
Accrued Wages and Benefits Payable	199,893	65,333		265,226
Interfund Payable		11,695	12,045	23,740
Intergovernmental Payable	43,200	17,026	328	60,554
Total Liabilities	<u>260,176</u>	<u>96,114</u>	<u>23,399</u>	<u>379,689</u>
Fund Balances:				
Restricted		317,794	34,554	352,348
Assigned	24,876			24,876
Unassigned	342,787			342,787
Total Fund Balances	<u>367,663</u>	<u>317,794</u>	<u>34,554</u>	<u>720,011</u>
Total Liabilities and Fund Balances	<u>\$627,839</u>	<u>\$413,908</u>	<u>\$57,953</u>	<u>\$1,099,700</u>

See Accompanying Notes to Basic Financial Statements.

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

Total Governmental Fund Balances	\$720,011
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	35,086
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Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:

Compensated Absences Payable	<u>(86,964)</u>
Net Assets of Governmental Activities	<u><u>\$668,133</u></u>

See Accompanying Notes to Basic Financial Statements.

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

	<u>General Fund</u>	<u>Alternative School</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Intergovernmental	\$291,233		\$5,275	\$296,508
Interest	397			397
Tuition and Fees	1,653,382	\$914,083		2,567,465
Gifts and Donations			20,290	20,290
Customer Sales and Services	633,061		51,986	685,047
Miscellaneous	65,099	3,000	435	68,534
Total Revenues	<u>2,643,172</u>	<u>917,083</u>	<u>77,986</u>	<u>3,638,241</u>
Expenditures:				
Current:				
Instruction:				
Special	1,403,057	863,613	24	2,266,694
Support services:				
Pupils	439,071		64,164	503,235
Instructional Staff	285,522		18,737	304,259
Board of Education	12,045			12,045
Administration	147,371		687	148,058
Fiscal	278,577			278,577
Operation and Maintenance of Plant	9,088			9,088
Central	28,968			28,968
Non-Instructional Services	38,870		93	38,963
Extracurricular activities			125	125
Total Expenditures	<u>2,642,569</u>	<u>863,613</u>	<u>83,830</u>	<u>3,590,012</u>
Excess of Revenues Over (Under) Expenditures	<u>603</u>	<u>53,470</u>	<u>(5,844)</u>	<u>48,229</u>
Net Change in Fund Balance	603	53,470	(5,844)	48,229
Fund Balances at Beginning of Year	<u>367,060</u>	<u>264,324</u>	<u>40,398</u>	<u>671,782</u>
Fund Balances at End of Year	<u>\$367,663</u>	<u>\$317,794</u>	<u>\$34,554</u>	<u>\$720,011</u>

See Accompanying Notes to Basic Financial Statements.

**LOGAN EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

Net Change in Fund Balances - Total Governmental Funds \$48,229

Amounts reported for governmental activities on the statement of activities are different because of the following:

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

Capital Outlay - Depreciable Capital Assets	0
Depreciation	(2,288)

Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Compensated Absences Payable	<u>16,285</u>
Change in Net Assets of Governmental Activities	<u><u>\$62,226</u></u>

See Accompanying Notes to Basic Financial Statements.

LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$81,953</u>
Liabilities:	
Undistributed Monies	<u>\$81,953</u>

See Accompanying Notes to Basic Financial Statements.

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**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

1. REPORTING ENTITY

The Logan County Educational Service Center (the Center) is located in Bellefontaine, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to Benjamin Logan, Riverside, and Indian Lake Local School Districts. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Center is operated under a locally elected Board form of government consisting of five members at-large for staggered four terms. The Center has 43 support staff employees and 33 certified teaching personnel that provide service to the local and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the Center consists of all funds, departments, boards, and agencies that are not legally separate from the Center. For the Center, this includes general operations and student-related activities.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally obligated to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Center.

The Center is associated with several organizations, which are defined as jointly governed organizations and three public entity risk pools. These organizations include the Western Ohio Computer Organization, the Ohio Hi-Point Joint Vocational School District, the Logan County Family and Children First Council, the Logan County Education Foundation, the Logan County Schools Benefit Plan Association, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan. These organizations are discussed in Notes 12 and 13 to the basic financial statements.

The Center serves as fiscal agent for the Family and Children First Council, a jointly governed organization for the Center.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Center have been prepared in conformity with generally accepted accounting principles (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 Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the Center's accounting policies.

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The Center's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the government activities of the Center at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Center's governmental activities. 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 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. Revenues that are not classified as program revenues are presented as general revenues of the Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity is self-financing or draws from the general revenues of the Center.

2. Fund Financial Statements

During the fiscal year, the Center segregates transactions related to certain Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds utilized by the Center, governmental and fiduciary.

1. Governmental Funds

Governmental funds are those through which most governmental functions of the Center 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 Center has two major governmental funds:

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Alternative Schools Fund - The Alternative Schools Fund is used to account for alternative educational programs existing and new at-risk and delinquent youth. Programs are focused on youth in one or more of the following categories: those who have been expelled or suspended, those who have dropped out of school or who are at risk of dropping out of school, those who are habitually truant or disruptive, or those on probation or on parole from a Department of Youth Services' facility.

The other governmental funds of the Center account for grants and other resources whose use is restricted to a particular purpose.

2. 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 Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency funds account for resources held for other organizations.

C. Measurement Focus

1. Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Center are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

2. Fund Financial Statements

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 are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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, includes a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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; the fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

1. 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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 Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the accrual basis, 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On the 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 both measurable and available at fiscal year end: grants, interest, tuition, fees, and customer services.

2. Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

3. Expenses/Expenditures

On the accrual basis, 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments

To improve the cash management, cash received by the Center is pooled. Monies for all funds are maintained in the pool. Individual fund integrity is maintained through the Center's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents." The Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2011 was \$397.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Center are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments. The Center did not have any investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed. The Center did not have any prepaid items.

G. Capital Assets

All of the Center's capital assets are governmental capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Center's capitalization threshold is one thousand dollars. The Center does not have any infrastructure. Improvements are capitalized. All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	40 years
Furniture and Fixtures	5 - 20 years
Equipment	10 years

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability of accumulated unused vacation leave time when earned for all employees with more than one year of service.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Center's termination policy. The Center records a liability for accumulated unused sick leave for all employees after twenty years of current service with the Center, or after fifteen years of service and at least forty five years of age, or after five years of service and at least fifty years of age.

I. Accrued Liabilities and Long-Term Obligations

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

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

J. 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 adopted by the Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for federal and state grants restricted to expenditure for specified purposes.

The Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Fund Balance

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

Non-spendable - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education 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 classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or 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 the Board of Education.

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 used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are 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 can be used.

L. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. The Center did not have this activity during 2011.

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities are eliminated on the statement of net assets.

M. 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 management and are either unusual in nature or infrequent in occurrence. The Center did not have this activity during 2011.

N. Estimates

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

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

3. DEPOSITS AND INVESTMENTS

Monies held by the Center are classified by State statute into three categories.

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

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

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

Interim monies held by the Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 market 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 or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain banker's acceptance and commercial paper notes, if trading requirements have been met, 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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 Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payments 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.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3. "Deposits With Financial Institutions, Investments (Including Repurchased Agreements), and Reverse Repurchase Agreements."

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$784,758 of the Center's bank balance of \$1,050,073 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

The Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

B. Investments

As of June 30, 2011, the Center did not have any investments.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Center has no investment policy that addresses interest rate risk.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Center has no investment policy that addresses custodial credit risk.

Concentration of Credit Risk - The Center places no limit on the amount it may invest in any one issuer.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

4. STATE FUNDING

The Center is funded by the State Department of Education from State resources and the school districts to which the Center provides services. The school districts portion is determined by multiplying the average daily membership of the local school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's School Foundation Program.

The Department of Education's portion is determined by multiplying the sum of the average daily memberships of the local school districts served by the Center by \$37.

This amount is provided from State resources. If additional funding is needed by the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided through the School Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

5. RECEIVABLES

Receivables at June 30, 2011, consisted of accounts receivable, accrued interest receivable, and interfund receivable. All receivables are considered collectible within one year and in full.

6. CAPITAL ASSETS

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

	<u>Balance at 6/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/11</u>
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	\$42,000		\$0	\$42,000
Furniture, Fixtures, and Equipment	46,520		0	46,520
Total Depreciable Capital Assets	<u>88,520</u>		<u>0</u>	<u>88,520</u>
Less Accumulated Depreciation				
Buildings and Building Improvements	8,488	\$1,050	0	9,538
Furniture, Fixtures, and Equipment	42,658	1,238	0	43,896
Total Accumulated Depreciation	<u>51,146</u>	<u>2,288</u>	<u>0</u>	<u>53,434</u>
Depreciable Capital Assets, Net	<u>37,374</u>	<u>(2,288)</u>	<u>0</u>	<u>35,086</u>
Governmental Activities Capital Assets, Net	<u>\$37,374</u>	<u>(\$2,288)</u>	<u>\$0</u>	<u>\$35,086</u>

The Center's buildings consist of a modular classroom that is used by the local school districts served by the Center.

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(Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$278
Support Services:	
Pupil	120
Instructional Staff	185
Administration	1,499
Fiscal	206
Total Depreciation Expense	\$2,288

7. RISK MANAGEMENT

A. Property and Liability

The Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the Center contracted with the Ohio School Plan Insurance for general liability insurance. Property is also protected by the Ohio School Plan. Coverages provided by the Ohio School Plan are as follows:

Coverage	Limit	Aggregate Limit	Deductible
General Liability	\$1,000,000	\$3,000,000	
Employee Benefits	1,000,000	3,000,000	
Employers' Liability	1,000,000		
Educational Legal Liability	1,000,000	3,000,000	\$2,500

There has been no significant change in coverage from last year. Settled claims have not exceeded this commercial coverage in any of the past three years.

B. Health Insurance

The Center participates in the Logan County Schools Benefit Plan Association (the Plan), a public entity shared risk pool (Note 13) consisting of three local school districts, one joint vocational school district and the Center. The Center pays monthly premiums to the Plan for employee medical benefits. The Plan is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

C. Workers' Compensation

For fiscal year 2011, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

7. RISK MANAGEMENT (Continued)

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement Systems Health provides administrative, cost control and actuarial services to the GRP. Each year, the Center pays an enrollment fee to the plan to cover the costs of administering the program.

8. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

Plan Description - The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. 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 can be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 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 Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on 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 DCP 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 fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, 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 DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the STRS Ohio Board upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

The Center's required contribution to STRS Ohio for the DBP and for the defined benefit portion of the CP were \$201,836 and \$963 for the fiscal year ended June 30, 2011, \$195,100 and \$0 for the fiscal year ended June 30, 2010, and \$186,142 and \$0, for the fiscal year ended June 30, 2009. For fiscal year 2011, 91 percent has been contributed for the DBP and 91 percent has been contributed for the CP, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

The contribution to STRS Ohio for the DCP for fiscal year 2011 was \$12 made by the Center and \$9 made by the plan members. In addition, member contributions of \$688 were made for fiscal year 2011 for the defined contribution portion of the CP.

B. School Employees Retirement System

Plan Description - The Center participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and 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 stand-alone financial report that can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute 14 percent of annual covered payroll. The contribution requirement 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. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the system's funds (pension trust fund, death benefit fund, Medicare B fund, and health care fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate was allocated to the Medicare B and health care funds. The Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 was \$92,837, \$106,441, and \$88,321, respectively. For fiscal year 2011, 97 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2011, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

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

9. POST-EMPLOYMENT BENEFITS

A. State Teachers Retirement System

Plan Description – The Center participates in a cost-sharing multiple-employer defined benefit Health Care 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. Ohio law authorizes STRS Ohio to offer the Plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which can be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Funding Policy – Chapter 3307 of the Ohio Revised Code 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 Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. The Center's contribution for health care for the fiscal years ended June 30, 2011, 2010, and 2009 was \$15,601, \$15,484, and \$14,667, respectively. For fiscal year 2011, 91 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

B. State Employees Retirement System

Plan Description – The Center participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal 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 fiscal year 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2011, this amount was \$35,800. For fiscal year 2011, the Center paid \$12,391 in surcharge.

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

The Center's contribution for health care for the fiscal years ended June 30, 2011, 2010, and 2009 was \$11,241, \$3,831, and \$40,420, respectively. For fiscal year 2011, 97 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

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(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2011, this actuarially required allocation was .76 percent of covered payroll. The Center's contribution for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 was \$5,974, \$6,330, and \$7,287, respectively. For fiscal year 2011, 97 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation, personal and sick leave components are derived from negotiated agreements and State laws. All twelve-month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time does carry beyond the contract year in which it is earned. Accumulated, unused vacation time is paid to administrators upon termination of employment if negotiated with the Board of Education. Teachers do not earn vacation time. All employees earn three days of personal leave per fiscal year. Accumulated, unused personal leave does not carry beyond the contract year in which it is earned.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days for all personnel. Upon retirement, payment is made for 22.5 percent of accrued, but unused sick leave credit to a maximum of 45 days for all employees.

B. Life Insurance

The Center provides life insurance and accidental death and dismemberment insurance to most employees through Sun Life Financial.

11. LONG-TERM OBLIGATIONS

Changes in the Center's long-term obligations during fiscal year 2011 were as follows:

	<u>Balance at 6/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/11</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Compensated Absences	\$103,249	\$24,923	\$41,208	\$86,964	\$35,527

Compensated absences will be paid from the General Fund.

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

12. JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Each of the governments of these districts supports WOCO based upon a per pupil charge dependent upon the software package utilized. The governing board of WOCO consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board.

In accordance with GASB Statement No. 14, the Center does not have an equity interest in WOCO, as the residual interest in the net resources of the joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from Cathy Doseck, Treasurer, Shelby County Educational Service Center (fiscal agent to the Western Ohio Computer Organization), 129 East Court Street, 4th Floor, Sidney, Ohio 45365.

B. Ohio Hi-Point Joint Vocational School District

The Ohio Hi-Point Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Ohio Hi-Point Joint Vocational School District, Eric Adelsberger, who serves as Treasurer, at 2280 State Route 540, Bellefontaine, Ohio 43311.

C. Family and Children First Council

The Family and Children First Council provides services to multi-need youth in Logan County. Members of the council include but are not limited to the Logan County Board of Mental Retardation and Development Disabilities, Mental Health Board, Logan County Child Support Enforcement Agency, Alcohol, Drug and Mental Health Service Board, Logan County Head Start, Logan County Board of Health, Logan County Human Services, Logan County Educational Service Center and the Ohio Department of Youth Services. The operation of the council is controlled by an advisory committee, which consists of a representative from each agency. Funding comes mainly from the State of Ohio. Financial information can be obtained from Tammy Nicholl, Executive Director, 1973 State Route 47 West, Bellefontaine, Ohio 43311.

D. Logan County Education Foundation

The Logan County Education Foundation was established to secure and distribute contributions from individuals, corporations, and foundations for the benefit of students within the county. The Foundation promotes, sponsors, and encourages the pursuit of excellence in education for students. The Foundation is managed by a Board of Trustees composed of six trustees from each school district. These trustees are nominated by their local school boards including Bellefontaine City School District, Benjamin Logan Local School District, Indian Lake Local School District, and Riverside Local School District. The Executive Board is comprised of the Logan County Educational Service Center Superintendent representing the three local school districts and the Bellefontaine City School District Superintendent representing the city school district. Financial information can be obtained by contacting Eric Tom, who serves as Executive Director, 121 S. Opera Street, Bellefontaine, Ohio 43311.

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

13. INSURANCE POOLS

A. Logan County Schools Benefit Plan Association

The Center participates in the Logan County Schools Benefit Plan Association (the Plan), a public entity shared risk pool consisting of one local school district, one joint vocational school district and the Center. The Center pays monthly premiums to the Plan for employee medical benefits. The Plan is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

B. Ohio School Boards Association Workers' Compensation Group Rating Plan

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

C. Ohio School Plan

The Center participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Schuett Insurance Agency, Inc., and a member of Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Schuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Schuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

14. INTERFUND TRANSACTIONS

The General Fund advanced \$11,695 to Alternative School Special Revenue, a major fund and \$12,045 to non-major funds to cover costs incurred in those funds where grant revenues had not been received at fiscal year end. These interfund balances will be repaid once the anticipated grant revenues are received. All interfund balances are expected to be repaid within one year.

15. CONTINGENCIES

A. Grants

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure 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 General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2011.

B. Litigation

There are currently no matters in litigation with the Center as defendant.

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

16. ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balance

Fund balance at June 30, 2011 included the following individual fund deficit:

Summer Intervention	\$13,049
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The General Fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance results from adjustments to accrued liabilities.

17. CHANGE IN BASIS OF ACCOUNTING

For fiscal year 2011, the Center modified its financial statements to reflect the modifications outlined in GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as non-spendable, restricted, committed, assigned, and/or unassigned. The statement also, requires certain funds to be included with the General fund. No restatement was required for the Center's financial statements.

18. FUND BALANCE

Fund balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund Balance</u>	<u>General</u>	<u>Alternative Schools Fund</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Restricted for:				
Special Instruction		\$317,794	\$ 8,735	\$326,529
Pupils			(3,793)	(3,793)
Instructional Staff			23,441	23,441
Administration			6,171	6,171
Total Restricted		<u>317,794</u>	<u>34,554</u>	<u>352,348</u>
Assigned for:				
Encumbrances	\$ 24,876			24,876
Total Assigned	<u>24,876</u>			<u>24,876</u>
Unassigned	<u>342,787</u>			<u>342,787</u>
Total Fund Balance	<u>\$367,663</u>	<u>\$317,794</u>	<u>\$34,554</u>	<u>\$720,011</u>



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

Logan County Educational Service Center
Logan County
121 South Opera Street
Bellefontaine, Ohio 43311

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Logan County Educational Service Center, Logan County, (the Center) as of and for the fiscal year ended June 30, 2011, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 3, 2012, wherein we noted the District adopted the provision of 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 Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the 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 Center's management in a separate letter dated January 3, 2012.

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Center's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Education, and others within the 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 initial "D".

Dave Yost
Auditor of State

January 3, 2012

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2011**

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

FINDING NUMBER 2011-001

Material Weakness

The following errors were noted in the preparation of the financial statements:

- Accounts receivable from Adriel Tuition in the amount of \$105,136, which represents 25 percent of total assets in the Alternative Fund was not included in the report.
- Accrued wages were not calculated correctly due to utilizing a system report that had errors in reporting negative accrued wages. Accrued benefits for insurance premiums were also incorrectly calculated for the employees whose contracts ended in July, as two months of accruals were recorded for these employees instead of only one month. Accrued wages and benefits based on the type of employee and remaining contract amounts were recalculated, and resulted in an increase in General Fund accrued wages and benefits of \$29,279, which represents 11 percent of total General Fund Liabilities; and an overall increase in Alternative Fund accrued wages and benefits of \$9,618, which represents 10 percent of total Alternative Fund Liabilities.
- Program revenue – Charges for Services resulting from Tuition and Fees revenue had the total reported against Special Instruction expenditure function line item. The state foundation amount paid by locals for supervisory allowance in the amount of \$198,130 should have been reported against Instructional Staff expenditure function line item instead of Special Instruction expenditure function line item; and the amount received for Fiscal Services through foundation in the amount of \$35,436 should have been reported against Fiscal expenditure function line item instead of Special Instruction expenditure function line item. The total of these reclassifications represent 7 percent of total Program Revenues being reclassified to other expenditure line items.
- Revenue from the state foundation for special education gifted and special education early child totaling \$51,096 was reported as General Revenue - Grants and Entitlements not Restricted to Specific Programs instead of Program Revenue - Operating Grants and Contributions against Special Instruction expenditure function line item, which represents 2 percent of total Program Revenues.
- The note disclosure for Defined Benefit Plans and Post-Employment Benefits were based on fiscal year 2010 disclosure percentages, instead of fiscal year 2011 disclosure percentages, and had to be recalculated and updated. The note disclosure did not include the State Employees Retirement System Defined Contribution Plan (DCP), or Combined Plan (CP) contributions, or the State Employees Retirement System Surcharge amount.

The errors noted above have been adjusted on the financial statements in order to properly present financial activity in accordance with generally accepted accounting principles (GAAP).

Additionally, an immaterial error was noted wherein the fund balance for the CCIP Honda Fund, AP Tech Fund, and S. Needles Classroom Grant Fund, totaling \$3,880, was incorrectly presented as Restricted instead of Assigned, contrary to GASB Statement 54 guidance.

By not properly reporting financial activity, users of the financial statements could be making decisions based on inaccurate financial information.

The Center should implement policies and procedures to review the GAAP compilation when received from the IPA.

**FINDING NUMBER 2011-001
(Continued)**

Officials Response

In order to improve on this, we will need the auditors to cooperate with us and provide supporting documentation and the sources for their adjustments. Also, the Treasurer needs more time to review the conversion before the audit begins. This will help us in preparing future conversions.

Auditor of State Position

The Auditor of State provided all requested support for adjustments.



Dave Yost • Auditor of State

LOGAN COUNTY EDUCATIONAL SERVICE CENTER

LOGAN 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 20, 2012