



Dave Yost • Auditor of State

**WARREN COUNTY EDUCATIONAL SERVICE CENTER
WARREN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Balance Sheet.....	13
Statement of Revenues, Expenses and Changes In Fund Balances	14
Statement of Revenues, Expenses and Changes In Fund Balances – Budget and Actual – General Fund	15
Statement of Revenues, Expenses and Changes In Fund Balances – Budget and Actual – ESC Work Site	16
Notes to the Basic Financial Statements	17
Independent Accountants' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required By Government Auditing Standards.....	33
Schedule of Findings.....	35
Schedule of Prior Audit Findings.....	37

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INDEPENDENT ACCOUNTANTS' REPORT

Warren County Educational Service Center
Warren County
1879 Deerfield Road
Lebanon, Ohio 45036

To the Board of Education:

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

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

Ohio Administrative Code § 117-2-03 (B) requires the Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Warren County Educational Service Center, Warren County, Ohio, as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with the accounting basis Note 1 describes.

As described in Note 13, during the year ended June 30, 2011, the Warren County Educational Service Center adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2012, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Dave Yost
Auditor of State

April 11, 2012

**Warren County Educational Service Center
Warren County**

**Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011
Unaudited**

This discussion and analysis of the Warren County Educational Service Center (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2011, within the limitations of the Educational Service Center's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

Highlights

Key highlights for fiscal year 2011 are as follows:

- Net assets increased \$49,265 or 0.87 percent.
- General revenues accounted for \$1,616,624 or 9.21 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$15,929,372 or 90.79 percent of total revenues of \$17,545,996.
- The Educational Service Center had \$17,496,731 in expenses related to governmental activities; only \$15,929,372 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily unrestricted grants and entitlements) of \$1,616,624 were used to provide for the remainder of these programs.
- The Educational Service Center recognizes two major governmental funds: the General Fund and the ESC Work Site Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the Educational Service Center combined. The General Fund had \$14,884,072 in revenues and \$14,599,655 in expenditures in fiscal year 2011.

Using the Basic Financial Statements

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

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Educational Service Center as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Educational Service Center as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Educational Service Center has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Educational Service Center's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

**Warren County Educational Service Center
Warren County**

**Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011
Unaudited**

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the Educational Service Center as a Whole

The statement of net assets and the statement of activities reflect how the Educational Service Center did financially during fiscal year, within the limitations of cash basis accounting. The statement of net assets presents the cash balances of the Educational Service Center at fiscal year-end. The statement of activities compares cash disbursements with program receipts for the Educational Service Center's programs. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of the program.

These statements report the Educational Service Center's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Educational Service Center's financial health. Over time, increases or decreases in the Educational Service Center's cash position is one indicator of whether the Educational Service Center's financial health is improving or deteriorating. When evaluating the Educational Service Center's financial condition, you should also consider other non-financial factors as well such as the Educational Service Center's reliance on non-local financial resources for operations.

In the Statement of Net Assets and the Statement of Activities, the Educational Service Center reports governmental activities. Governmental activities are the activities where most of the Educational Service Center's programs and services are reported including, but not limited to, instruction, support services, operation of non-instructional services and extracurricular activities. The Educational Service Center does not have any business-type activities.

Reporting the Educational Service Center's Most Significant Funds

Fund financial statements provide detailed information about the Educational Service Center's major funds – not the Educational Service Center as a whole. The Educational Service Center establishes separate funds to better manage its activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The fund financial statements provide a detailed view of the Educational Service Center's operations and the basic services it provides. Fund information helps determine whether there are more or less financial resources that can be spent to finance the Educational Service Center's activities. The Educational Service Center's significant funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Educational Service Center's major governmental funds are the General Fund and the ESC Work Site Fund.

**Warren County Educational Service Center
Warren County**

**Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011
Unaudited**

Governmental Funds

All of the Educational Service Center'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 the future periods.

The governmental fund statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net assets comparing fiscal years ended for 2011 and 2010 on a cash basis:

	Table 1 Net Assets	
	<u>2011</u>	<u>2010</u>
Assets		
Total Assets	<u>\$5,704,821</u>	<u>\$5,655,556</u>
Fund Balances		
Restricted	2,930,283	377,262
Committed	22,431	0
Assigned	82,135	0
Unassigned	<u>2,669,972</u>	<u>5,278,294</u>
Total Net Assets	<u><u>\$5,704,821</u></u>	<u><u>\$5,655,556</u></u>

Total net assets increased \$49,265 during fiscal year 2011, which is 0.87 percent.

Table 2 reflects the changes in net assets in fiscal years 2011 and 2010; in addition to providing comparisons between years.

**Warren County Educational Service Center
Warren County**

**Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011
Unaudited**

Table 2

	2011	2010
Revenues		
Program Revenues:		
Charges for Services	\$14,784,685	\$14,000,337
Operating Grants, Contributions and Interest	1,107,339	1,189,450
Total Program Revenues	<u>15,892,024</u>	<u>15,189,787</u>
General Revenues:		
Grants and Entitlements	1,633,507	1,612,774
Investment Earnings	21,469	8,250
Miscellaneous	(1,006)	320
Total General Revenues	<u>1,653,970</u>	<u>1,621,344</u>
Total Revenues	<u>17,545,994</u>	<u>16,811,131</u>
Program Expenses		
Instruction:		
Regular	877,412	876,526
Special	5,430,930	5,137,222
Other	10,413	28,819
Support Services:		
Pupils	7,392,494	7,125,938
Instructional Staff	163,157	108,113
Board of Education	23,258	32,696
Administration	1,949,414	1,996,611
Fiscal	505,434	465,356
Business	30,811	35,428
Operation and Maintenance of Plant	174,730	145,325
Pupil Transportation	178,229	172,193
Central	410,218	423,309
Operation of Non-Instructional Services	4,874	5,300
Facilities Acquisition and Construction Services		
Site Acquisition Services	208,201	0
Architecture and Engineering Services	62,660	0
Building Acquisition and Construction Services	11,693	0
Building Improvement Services	62,187	0
Other Facilities Acquisition and Construction Services	615	0
Total Expenses	<u>17,496,731</u>	<u>16,552,836</u>
Increase/(Decrease) in Net Assets	<u>49,265</u>	<u>258,295</u>
Net Assets Beginning of Year	5,655,556	5,397,261
Fund Reclassification	\$0	\$0
Net Assets End of Year	<u>\$5,704,821</u>	<u>\$5,655,556</u>

**Warren County Educational Service Center
Warren County**

**Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011
Unaudited**

Governmental Activities

Over the past several fiscal years, the Educational Service Center has remained in stable financial condition. This has been accomplished through good fiscal management. The Educational Service Center is heavily dependent on charges for services and sales, and intergovernmental revenue. Charges for services, and tuition and fees made up 84.26 percent and intergovernmental revenue made up 6.31 percent of the total revenue for the governmental funds in fiscal year 2011.

The Educational Service Center's intergovernmental revenue consists of school foundation basic allowance, and federal and state grants. During fiscal year 2011, the Educational Service Center received \$1,633,506 through the State's foundation program, which represents 9.31 percent of the total revenue for the governmental activities. The Educational Service Center relies on this state funding to operate at the current levels of service.

Instruction accounts for 36.11 percent of governmental activities program expenses. Support services expenses make up 63.89 percent of governmental activities expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Statement of Activities

If you look at the Statement of Activities, you will see that the first column lists the major activities of the Educational Service Center. The next column identifies the costs of providing these services. The next two columns of the Statement entitled Program Receipts identify, in general, the source of the receipts. The amounts are either paid by people who are directly charged for the service or grants and contributions received by the Educational Service Center that must be used to provide a specific service. A comparison between the total cost of services and the net cost is presented in Table 3. That is, it identifies the cost of these services supported by restricted State entitlements and investment earnings.

**Warren County Educational Service Center
Warren County**

**Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011
Unaudited**

A comparative analysis between fiscal year 2011 to fiscal year 2010:

**Table 3
Governmental Activities**

	Total Cost Of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Instruction:				
Regular	\$877,412	(\$15,573)	\$876,526	\$401,670
Special	5,430,930	476,184	5,137,222	(551,743)
Other	10,413	936	28,819	28,819
Support Services:				
Pupils	7,392,494	460,048	7,125,938	487,132
Instructional Staff	163,157	74,774	108,113	99,130
Board of Education	23,258	23,258	32,696	32,696
Administration	1,949,414	155,636	1,996,611	219,319
Fiscal	505,434	44,655	465,356	50,652
Business	30,811	2,770	35,428	35,428
Operation and Maintenance of Plant	174,730	14,154	145,325	138,430
Pupil Transportation	178,229	6,555	172,193	12,872
Central	410,219	31,664	423,309	403,344
Operation of Non-Instructional Services	4,874	(230)	5,300	5,300
Facilities Acquisition and Construction Services				
Site Acquisition Services	208,201	208,201	0	0
Architecture and Engineering Services	62,660	62,660	0	0
Building Acquisition and Construction Services	11,693	1,051	0	0
Building Improvement Services	62,187	57,352	0	0
Other Facilities Acquisition and Construction Services	615	615	0	0
Total	<u>\$17,496,731</u>	<u>\$1,604,707</u>	<u>\$16,552,836</u>	<u>\$1,363,049</u>

The Educational Service Center's Funds

The Educational Service Center's major governmental funds are the General Fund and the ESC Work Site Fund. All of the governmental funds had total receipts of \$17,547,181 and total disbursements of \$17,496,731. At the end of fiscal year 2011, unreserved fund balance of the General Fund was \$2,153,955. The General Fund had an increase of \$94 in fund balance.

**Warren County Educational Service Center
Warren County**

**Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011
Unaudited**

Budget Highlights - General Fund

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a cash basis for receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2011, the Educational Service Center amended its General Fund budget several times. The Educational Service Center uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors' flexibility for site management.

The Educational Service Center prepares and monitors a detailed cash flow plan for the General Fund. Actual cash flow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budget basis revenue was \$15,090,081 representing a \$2,226,227 decrease from the original budget estimates of \$17,356,308. The final budget reflected a 13.06 percent decrease from the original budgeted amount. Most of this difference was due to changes in estimates of charges for services to be provided by the Educational Service Center, as well as intergovernmental, and tuition and fees revenue. For the General Fund, the final budget basis expenditures were \$14,733,795 representing a decrease of \$1,901,775 from the original budget expenditures of \$16,635,570. The final budget reflected an 11.43 percent decrease from the original budgeted amount. Most of the difference is due to initial estimates of regular instruction expenditures being higher than what was needed during the fiscal year by the Educational Service Center.

Capital Assets

The Educational Service Center tracks its capital assets on the State EIS system.

Debt Administration

At June 30, 2011, the Educational Service Center had no general obligation debt outstanding.

Detailed information pertaining to the Educational Service Center's only long-term liability activity can be found in the notes to the basic financial statements.

Current Issues

Warren County Educational Service Center is financially stable, and has been over the past several years. As indicated in the preceding financial information, the Educational Service Center is dependent on intergovernmental revenue. Intergovernmental revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the Educational Service Center to provide a quality education for the students of Warren County.

As indicated in the preceding financial information, the Educational Service Center relies on the State's foundation program for approximately 9 percent of their general fund revenue. All other income is derived from direct invoicing for services and grants. In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002, the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court had two new Justices beginning in calendar year 2003 and another in calendar year 2006 and the new court may be called upon to address the issue. At this time, there can be no reasonable estimate of the decision or its impact on school funding.

**Warren County Educational Service Center
Warren County**

**Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011
Unaudited**

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this decision will have on its future State funding and on its financial statements.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it received. If you have any questions about this report or need additional information, contact Shaun Bevan, C.P.A., Treasurer of Warren County Educational Service Center, 1879 Deerfield Road, Lebanon, Ohio 45036.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$5,704,821</u>
<i>Total Assets</i>	<u><u>\$5,704,821</u></u>
Net Assets	
Restricted for:	
Capital Outlay	\$6,078
Severance Payments	8,030
Specific Programs	<u>298,720</u>
Total Restricted	<u>\$312,828</u>
Unrestricted	<u>\$5,391,993</u>
Total Net Assets	<u><u>\$5,704,821</u></u>

See accompanying notes to the basic financial statements.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

Statement of Activities

For the Fiscal Year Ended June 30, 2011

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$877,412	\$851,526	\$42,350	\$16,463
Special	5,430,930	4,968,079	177	(462,673)
Other	10,413	9,501		(912)
<i>Support Services:</i>				
Pupils	7,392,494	6,036,963	911,427	(444,104)
Instructional Staff	163,157	43,545	44,838	(74,774)
Board of Education	23,258			(23,258)
Administration	1,949,414	1,798,112		(151,302)
Fiscal	505,434	460,560	1,406	(43,468)
Business	30,811	28,113		(2,698)
Operation and Maintenance of Plant	174,730	160,968		(13,762)
Pupil Transportation	178,229	66,854	104,866	(6,509)
Central	410,219	377,190	2,275	(30,754)
Operation of Non-Instructional Services	4,874	5,104		230
<i>Facilities Acquisition and Construction Services</i>				
Site Acquisition Services	208,201			(208,201)
Architecture and Engineering Services	62,660			(62,660)
Building Acquisition and Construction Services	11,693	10,669		(1,024)
Building Improvement Services	62,187	4,848		(57,339)
Other Facilities Acquisition and Construction Services	615			(615)
<i>Total Governmental Activities</i>	\$17,496,731	\$14,822,033	\$1,107,339	(1,567,359)
 <u>General Revenues:</u>				
Grants and Entitlements not Restricted to Specific Programs				1,633,506
Investment Earnings				21,469
Miscellaneous				(38,351)
<i>Total General Revenues</i>				1,616,624
Change in Net Assets				49,265
<i>Net Assets at Beginning of Year</i>				5,655,556
<i>Net Assets at End of Year</i>				\$5,704,821

See accompanying notes to the basic financial statements.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Balance Sheet
Governmental Funds
June 30, 2011*

	<u>General</u>	<u>ESC Work Site</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	<u>\$2,777,518</u>	<u>\$1,975,818</u>	<u>\$951,485</u>	<u>\$5,704,821</u>
Total Assets	<u>2,777,518</u>	<u>1,975,818</u>	<u>951,485</u>	<u>5,704,821</u>
Fund Balances				
Restricted	533,397	1,975,818	421,068	2,930,283
Committed	8,031		14,400	22,431
Assigned	82,135			82,135
Unrestricted, Unassigned	<u>2,153,955</u>		<u>516,017</u>	<u>2,669,972</u>
Total Fund Balances	<u>\$2,777,518</u>	<u>\$1,975,818</u>	<u>\$951,485</u>	<u>\$5,704,821</u>

See accompanying notes to the basic financial statements.

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	ESC Work Site	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Intergovernmental	\$1,633,506	\$0	\$1,107,522	\$2,741,028
Interest	21,469	0	0	21,469
Tuition and Fees	1,327,483	0	783,600	2,111,083
Charges for Services	11,896,434	0	777,167	12,673,601
Miscellaneous	0	0	0	0
<i>Total Revenues</i>	<u>14,878,892</u>	<u>0</u>	<u>2,668,289</u>	<u>17,547,181</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	379,305	0	498,107	877,412
Special	5,392,336	0	38,594	5,430,930
Other	10,413	0	0	10,413
<i>Support Services:</i>				
Pupils	5,742,785	0	1,649,709	7,392,494
Instructional Staff	81,226	0	81,931	163,157
Board of Education	23,258	0	0	23,258
Administration	1,843,685	0	105,729	1,949,414
Fiscal	504,752	0	682	505,434
Business	30,811	0	0	30,811
Operation and Maintenance of Plant	166,350	0	8,380	174,730
Pupil Transportation	19,617	0	158,612	178,229
Central	386,879	0	23,340	410,219
Operation of Non-Instructional Services	74	0	4,800	4,874
<i>Facilities Acquisition and Construction Services</i>				
Site Acquisition Services	0	208,201	0	208,201
Architecture and Engineering Services	0	62,660	0	62,660
Building Acquisition and Construction Services	11,693	0	0	11,693
Building Improvement Services	5,313	56,874	0	62,187
Other Facilities Acquisition and Construction Services	0	615	0	615
<i>Total Expenditures</i>	<u>14,598,497</u>	<u>328,350</u>	<u>2,569,884</u>	<u>17,496,731</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>280,395</u>	<u>(328,350)</u>	<u>98,405</u>	<u>50,450</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	11,687	0	285,116	296,803
Transfers Out	(5,553)	0	(291,429)	(296,982)
Advances In	135,656	304,168	121,945	561,769
Advances Out	(426,113)	0	(135,656)	(561,769)
Refund of Prior Year Expenditures	5,180	0	0	5,180
Refund of Prior Year Receipts	(1,158)	0	(5,028)	(6,186)
<i>Total Other Financing Sources (Uses)</i>	<u>(280,301)</u>	<u>304,168</u>	<u>(25,052)</u>	<u>(1,185)</u>
<i>Net Change in Fund Balances</i>	94	(24,182)	73,353	49,265
<i>Fund Balances at Beginning of Year</i>	2,554,959	2,000,000	1,100,597	5,655,556
<i>Fund Reclassification (see Note 13)</i>	\$222,465	\$0	(\$222,465)	\$0
<i>Restated Beginning Fund Balances</i>	2,777,424	2,000,000	878,132	5,655,556
<i>Fund Balances at End of Year</i>	<u>\$2,777,518</u>	<u>\$1,975,818</u>	<u>\$951,485</u>	<u>\$5,704,821</u>

See accompanying notes to the basic financial statements.

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Statement of Revenues, Expenditures and Change
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$1,528,200	\$1,633,506	\$1,633,506	\$0
Interest	8,000	21,469	21,469	0
Tuition and Fees	1,384,000	1,327,483	1,327,483	0
Charges for Services	14,436,108	11,859,086	11,896,434	37,348
<i>Total Revenues</i>	17,356,308	14,841,544	14,878,892	37,348
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	874,128	347,562	379,305	(31,743)
Special	5,587,996	5,406,544	5,392,336	14,208
Other	9,508	10,578	10,413	165
<i>Support Services:</i>				
Pupils	5,648,514	5,747,232	5,742,785	4,447
Instructional Staff	355,653	82,886	81,226	1,660
Board of Education	47,586	24,439	23,258	1,181
Administration	2,125,655	1,952,386	1,843,685	108,701
Fiscal	672,182	514,125	504,752	9,373
Business	75,100	30,000	30,811	(811)
Operation and Maintenance of Plant	336,771	171,062	166,350	4,712
Pupil Transportation	27,766	19,657	19,617	40
Central	473,135	397,943	386,879	11,064
Operation of Non-Instructional Services	126	(52)	74	(126)
<i>Facilities Acquisition and Construction Services</i>				
Building Acquisition and Construction Services	0	11,693	11,693	0
Building Improvement Services	0	17,740	5,313	12,427
Contingencies	401,450	0	0	0
<i>Total Expenditures</i>	16,635,570	14,733,795	14,598,497	135,298
<i>Excess of Revenues Over (Under) Expenditures</i>	720,738	107,749	280,395	172,646
<u>Other Financing Sources (Uses):</u>				
Transfers In	0	107,701	11,687	(96,014)
Transfers Out	(500,000)	(5,554)	(5,553)	1
Advances In	0	135,656	135,656	0
Advances Out	(350,000)	(426,113)	(426,113)	0
Refund of Prior Year Expenditures	0	5,180	5,180	0
Refund of Prior Year Receipts	(20,000)	(1,158)	(1,158)	0
<i>Total Other Financing Sources (Uses)</i>	(870,000)	(184,288)	(280,301)	(96,013)
Change in Fund Balance	(149,262)	(76,539)	94	76,633
<i>Fund Balance at Beginning of Year</i>	2,554,959	2,554,959	2,554,959	0
Prior Year Encumbrances Appropriated	216,764	216,764	216,764	0
<i>Fund Balance at End of Year</i>	\$2,622,461	\$2,695,184	\$2,771,817	\$76,633

See accompanying notes to the basic financial statements.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Statement of Revenues, Expenditures and Change
in Fund Balance - Budget and Actual (Budget Basis)
ESC Work Site*

For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$0	\$0	\$0	\$0
<i>Total Revenues</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Expenditures:</u>				
<i>Current:</i>				
Facilities Acquisition and Construction Services				
Site Acquisition Services	0	208,201	208,201	0
Architecture and Engineering Services	0	62,660	62,660	0
Building Improvement Services	0	56,874	56,874	0
Other Facilities Acquisition and Construction Services	0	615	615	0
<i>Total Expenditures</i>	<u>0</u>	<u>328,350</u>	<u>328,350</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>0</u>	<u>(328,350)</u>	<u>(328,350)</u>	<u>0</u>
<u>Other Financing Sources (Uses):</u>				
Advances In	0	304,168	304,168	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>304,168</u>	<u>304,168</u>	<u>0</u>
Change in Fund Balance	0	(24,182)	(24,182)	0
<i>Fund Balance at Beginning of Year</i>	2,000,000	2,000,000	2,000,000	0
Prior Year Encumbrances Appropriated	0	0	0	0
<i>Fund Balance at End of Year</i>	<u>\$2,000,000</u>	<u>\$1,975,818</u>	<u>\$1,975,818</u>	<u>\$0</u>

See accompanying notes to the basic financial statements.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

Description of the Educational Service Center

The Warren County Educational Service Center (the “Educational Service Center”) is located in Lebanon, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Carlisle, Kings, Little Miami and Wayne Local School Districts, as well as the Springboro, Lebanon, Franklin and Middletown City School Districts. Other school districts outside Warren County are served on an individual contract basis for various services. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Warren County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Educational Service Center is staffed by 133 classified, 187 certified, and three administrative employees providing educational service to school districts.

Reporting Entity

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

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

The Educational Service Center is associated with five organizations. Two are jointly governed organizations, and two are insurance purchasing pools. These organizations are the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Cooperative (SOEPC), the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan, and the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan. Information about these organizations is presented in Note 10 and Note 11 to the basic financial statements.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 20, 1989 have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Educational Service Center's accounting policies

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Educational Service Center that are governmental and those that are considered business-type activities. The Educational Service Center has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service 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. The policy of the Educational Service Center is not to allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements

During the year, the Educational Service Center segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statement is designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting by type. The two major funds are presented in separate columns. Nonmajor funds are aggregated and presented in a single column.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

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

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts. The funds of the Educational Service Center fall within the category of governmental.

Governmental Funds

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The following is the Educational Service Center's major governmental fund:

General Fund – This fund is the operating fund of the Educational Service Center and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

ESC Work Site – This fund is used to account for monies relating to the renovation of the Educational Service Center's new office space in Lebanon, Ohio.

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

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, the Service Center classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form (inventory) or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority (the Board of Education).

Assigned – resources that are intended to be used for specific purposes as approved through the Service Center's formal purchasing procedure by the Treasurer.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

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

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from incurred expenses for specific purposes exceeding amounts which had been restricted, committed, or assigned for said purposes.

The Service Center applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net assets are available. The Service Center considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the fund balance classifications are applicable and appropriate.

Fund Balance Assets

The Service Center's total Governmental fund balance at the end of the 2011 fiscal year was \$5,704,821 with an unassigned balance of \$2,669,972. The classifications are detailed on page 11 of the Statement of Net Assets cash basis.

C. Basis of Accounting

The Educational Service Center's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Educational Service Center's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when the liability is incurred.

As a result of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed for provided services not yet collected) and certain liabilities (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. If the Educational Service Center utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2011, investments were limited to the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2011.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2011 amounted to \$21,469.

E. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

F. Compensated Absences

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Educational Service Center's cash basis of accounting.

G. Accrued Liabilities and Long-Term Liabilities

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

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

H. Interfund Activity

Permanent non-exchange flows of cash 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 on the fund financial statements and eliminated on the district wide statements. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the financial statements.

I. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for federal and state grants restricted to cash disbursement for specified purposes. The Educational Service Center's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

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

J. Fund Balance Reserves

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

K. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one 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 to the funds that initially paid for them are not presented on the government-wide statements.

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For the fiscal year 2011, the Educational Service Center reported no extraordinary and special items.

M. Budgetary Process

The budgetary process entails the preparation of budgetary documents within an established timetable, as prescribed by the Educational Service Center's Board policy. The Educational Service Center adopts its budget on or before the start of the new fiscal year. The major documents included in the budget are the estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant. All funds are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each fund and function.

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Educational Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

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

Appropriations: The annual appropriation resolution is enacted by the Educational Service Center at the fund, function, and object level of expenditures. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. Budgetary controls require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of the Educational Service Center.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, several supplemental appropriations were enacted.

The final budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

Encumbrances: As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law and described earlier is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Change in Fund Balance - Budget and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Educational Service Center into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Educational Service 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 two year period of designation of depositories. Inactive deposits must be either 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.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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

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

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

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

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee 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 and Reverse Repurchase Agreements", and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the Educational Service Center's deposits may not be returned. All deposits are collateralized with eligible securities. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Educational Service Center.

At June 30, 2011, the carrying amount of all Educational Service Center deposits was \$3,389,198. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2011, \$3,033,658 of the Educational Service Center's bank balance of \$3,389,198 was exposed to custodial risk as discussed above while \$500,000 was covered by Federal Deposit Insurance. The \$3,033,658 exposed to custodial risk was collateralized with securities held by the Educational Service Center or its agent in the Educational Service Center's name.

Investments: As of June 30, 2011, the Educational Service Center had the following investments and maturities:

Investment Type	Fair Value	Maturity of 6 Months or Less
STAR Ohio	\$2,602,153	\$2,602,153
Totals	\$2,602,153	\$2,602,153

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Educational Service Center's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard and Poor's has assigned STAR Ohio an "AAAm" money market rating.

Custodial Credit Risk: For investments, custodial credit risk is the risk that, in the event of the failure of the counter party, the Educational Service Center will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Educational Service Center policy provides that investment collateral is held by the counter party as trust department or agent, and may be held in the name of the Educational Service Center or not.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

NOTE 5 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2011, the Educational Service Center contracted with Governmental Underwriters of America for property. Coverages provided are as follows:

Building and Contents (\$1,000 deductible)	\$1,252,170
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists Liability (\$1,000 deductible)	1,000,000
<i>General Liability:</i> Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Fire Damage Limit - Any One Event	500,000
<i>Employee Benefits Liability:</i> Each Occurrence	1,000,000
Aggregate Limit	3,000,000
<i>Employer's Liability:</i> Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Disease - Policy Limit	1,000,000
<i>Excess Liability – Umbrella Form</i> Each Occurrence	5,000,000
Aggregate Limit	5,000,000

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

For fiscal year 2011, the Educational Service Center also participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 11). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Educational Service Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the EPC. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

For fiscal year 2011, the Educational Service Center also participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service 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

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

NOTE 5 - RISK MANAGEMENT – (Continued)

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. 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 Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 6 - PENSION PLANS

School Employees Retirement System

Plan Description - The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$586,569, \$568,209, and \$568,131, respectively; 100 percent has been contributed for fiscal year 2011, and 100 percent for fiscal years 2010 and 2009.

State Teachers Retirement System

Plan Description - The Educational Service Center 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

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

NOTE 6 - PENSION PLANS – (Continued)

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 the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center 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 Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$1,099,002, \$1,074,347, and \$990,585, respectively; 100 percent has been contributed for fiscal year 2011, and 100 percent for fiscal years 2010 and 2009.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2011, two members of the Board of Education have elected Social Security. The contribution rate is 6.7 percent of wages.

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The Educational Service Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

NOTE 7 - POSTEMPLOYMENT BENEFITS – (Continued)

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2011, 0.76 percent of covered payroll was allocated to health care.

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.

B. State Teachers Retirement System

Plan Description – The Educational Service Center contributes to the cost sharing multiple employer defined benefit Health 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.

NOTE 8 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from Board Policy and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. They may also earn vacation bonus days as specified in Board Policy. Vacation days may not be carried over. All full-time certificated and classified employees are entitled to three days personal leave per year, which does not accumulate from one year to the next. Teachers do not earn vacation time. Eleven and twelve month certified staff earn three weeks and four weeks, respectively. They may also earn vacation bonus days as specified in Board Policy, if hired prior to July 1, 1997. New employees hired after July 1, 1997 are not entitled to vacation bonus days.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

NOTE 8 - EMPLOYEE BENEFITS – (Continued)

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. Upon retirement, payment is made for 30 percent of the first 200 days of total sick leave accumulation (a maximum of 60 days).

Health Care Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to full-time employees and other employees per Board policy through UnumProvident.

Medical and surgical benefits are provided through Anthem Blue Cross and Blue Shield through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (Note 11).

The Educational Service Center also offers universal life insurance and/or disability insurance or tuition reimbursement if eligible employees choose these benefits instead of health insurance. Universal life insurance is offered through Midland Life Insurance Company and disability insurance is offered through Lincoln National Life Insurance Company. Tuition reimbursement is made directly to the employee, per Board Policy.

The Educational Service Center provides dental insurance to full-time employees through Delta Dental.

NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS

Southwest Ohio Computer Association

The Educational Service Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public schools and educational service centers within the boundaries of Butler, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts. The governing board of SWOCA consists of the superintendent (or the superintendent's designee) from each member district. The Educational Service Center paid SWOCA \$21,891 for services provided during the year. Financial information can be obtained from the fiscal agent, Butler Tech, 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Educational Purchasing Cooperative

The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of 129 school districts, boards of developmental disabilities, and educational service centers in 18 counties. The purpose of the cooperative is to obtain reduced prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2011, the Educational Service Center paid \$300 to SOEPC to be a

WARREN COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
(Continued)*

NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS – (Continued)

member. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Ken S. Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377-1171.

NOTE 10 - INSURANCE PURCHASING POOLS

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan

The Educational Service Center participates in a group rating plan for workers' compensation as established under section 4123.29 of the Ohio Revised Code. The Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP) was established through the Southwestern Ohio Educational Purchasing Cooperative (SOEPC) as an insurance purchasing pool.

The GRP's business and affairs are conducted by a Board of Directors. The Executive Director of the SOEPC, or his designee, serves as coordinator of the program. Each year, the participating school districts and educational service centers pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 11 - STATE FUNDING

The Educational Service Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from both State and local resources.

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the 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 Foundation Program. The Department of Education's portion is determined by multiplying the sum of average daily memberships of all of the school districts served by the Educational Service Center by \$37. This amount is provided from State resources.

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of the school districts served by the Educational Service Center approve, the cost of Part (B) of the budget 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 Educational Service Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

(Continued)

NOTE 12 - CONTINGENCIES

The Educational Service 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 of conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2011.

NOTE 13 - RESTATEMENT OF FUND BALANCES

To comply with the State of Ohio Auditor's Bulletin 2011-004 concerning Governmental Accounting Standards Board Statement No. 54, fund code 035 and fund code 018 are now added into what is termed the "General Fund" and removed from the "Other Governmental Fund" totals.

	GENERAL FUND	ESC WORK SITE	OTHER GOVERNMENTAL	TOTAL
2010 Ending Fund Balance	\$2,554,959	\$2,000,000	\$1,100,597	\$5,655,557
Fund Code 018 balance	39,237	-	(39,237)	-
Fund Code 035 balance	183,228	-	(183,228)	-
Subtotal reclassification	\$222,465	-	(\$222,465)	-
Revised 2010 Ending Fund Balance	\$2,777,424	\$2,000,000	\$878,132	\$5,655,556



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

Warren County Educational Service Center
Warren County
1879 Deerfield Road
Lebanon, Ohio 45036

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Warren County Educational Service Center, Warren County, Ohio (the Service Center), as of and for the year ended June 30, 2011, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated April 11, 2012, wherein we noted the Service Center uses a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. We also noted that the Service Center adopted the provisions 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 Service 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 Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-01.

We intend this report solely for the information and use of management and others within the Service Center. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

April 11, 2012

WARREN COUNTY EDUCATIONAL SERVICE CENTER
WARREN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2011

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

FINDING NUMBER 2011-01

Noncompliance

Ohio Revised Code, § 117.38, provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code § 117-2-03 (B), requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). The Service Center prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code § 117.38, the Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Service Center should prepare their annual financial reports in accordance with generally accepted accounting principles.

We received no response from officials to the finding reported above.

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WARREN COUNTY EDUCATIONAL SERVICE CENTER
WARREN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	ORC 117.38 and OAC 1170-2-03(B) annual financial report not in accordance with GAAP	No	Reissued as Finding 2011-01

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WARREN COUNTY EDUCATIONAL SERVICE CENTER

WARREN 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
MAY 15, 2012