



Dave Yost • Auditor of State



**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	5
Basic Financial Statements:	
Statement of Net Position .....	15
Statement of Activities.....	16
Balance Sheet – Governmental Funds .....	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities .....	20
Statement of Assets and Liabilities – Fiduciary Funds .....	21
Notes to the Basic Financial Statements .....	23
Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund.....	51
Budgetary Notes to the Supplementary Information.....	53
Supplementary Data:	
Schedule of Federal Awards Receipts and Expenditures.....	55
Notes to the Schedule of Federal Awards Receipts and Expenditures .....	56
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	57
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and On Internal Control Over Compliance Required by OMB Circular A-133 .....	59
Schedule of Findings .....	63
Schedule of Prior Audit Findings.....	65
Corrective Action Plan.....	67
Independent Accountants' Report on Applying Agreed Upon Procedure.....	69

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Mahoning County Educational Service Center  
Mahoning County  
100 DeBartolo Place Suite 220  
Youngstown, Ohio 44512

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahoning County Educational Service Center, Mahoning County, Ohio (the "ESC"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the ESC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the ESC's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahoning County Educational Service Center, Mahoning County, Ohio, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the ESC adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

#### *Supplementary and Other Information*

Our audit was conducted to opine on the ESC's basic financial statements taken as a whole.

The budgetary comparison and notes present additional analysis and is not a required part of the basic financial statements.

The Schedule of Federal Awards Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the financial statements.

The statement, notes, and schedule, are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this statement, notes and schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this statement, notes, and schedule are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report April 1, 2014, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ESC's internal control over financial reporting and compliance.

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  
Columbus, Ohio

April 1, 2014

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The management's discussion and analysis of the Mahoning County Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2013 are as follows:

- In total, net position of governmental activities decreased \$2,148,247 which represents a 54.03% decrease from 2012.
- General revenues accounted for \$1,841,707 in revenue or 8.52% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$19,769,281 or 91.48% of total revenues of \$21,610,988.
- The ESC had \$23,759,235 in expenses related to governmental activities; \$19,769,281 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,841,707 were not adequate to provide for these programs.
- The ESC's major governmental funds are the general fund and permanent improvement fund. The general fund had \$18,947,666 in revenues and other financing sources and \$18,795,858 in expenditures and other financing uses. During fiscal year 2013, the general fund's fund balance increased from \$433,947 to \$585,755.
- The permanent improvement fund is a major fund for the ESC and had other financing sources (transfers) of \$120,000. During fiscal year 2013, the permanent fund's fund balance increased from \$490,000 to \$610,000.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the ESC as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *statement of net position* and *statement of activities* provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund and the permanent improvement fund are the only governmental funds reported as major funds.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**Reporting the ESC as a Whole**

***Statement of Net Position and the Statement of Activities***

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The statement of net position and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the ESC as a whole, the *financial position* of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the ESC's facility issues, required educational programs and other factors.

In the statement of net position and the statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The government-wide financial statements include not only the activity of the ESC itself (known as the primary government), but also a separate community school for which the ESC is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government.

The ESC's statement of net position and statement of activities can be found on pages 15-16 of this report.

**Reporting the ESC's Most Significant Funds**

***Fund Financial Statements***

The analysis of the ESC's major governmental funds begins on page 11. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the general fund and the permanent improvement fund.

***Governmental Funds***

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net position and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-20 of this report.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

***Reporting the ESC's Fiduciary Responsibilities***

The ESC acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities on page 21. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-50 of this report.

***Supplementary Information***

The ESC has presented the budgetary comparison schedule and notes for the general fund as supplementary information on pages 51-54 of this report.

**The ESC as a Whole**

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

The table below provides a summary of the ESC's net position at June 30, 2013 and June 30, 2012.

	<b>Net Position</b>	
	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 5,346,662	\$ 6,582,351
Capital assets	<u>137,890</u>	<u>171,548</u>
Total assets	<u>5,484,552</u>	<u>6,753,899</u>
<b><u>Liabilities</u></b>		
Current liabilities	2,874,090	2,095,683
Long-term liabilities	<u>782,798</u>	<u>682,305</u>
Total liabilities	<u>3,656,888</u>	<u>2,777,988</u>
<b><u>Net position</u></b>		
Net investment in capital assets	100,777	171,548
Restricted	700,546	1,874,977
Unrestricted	<u>1,026,341</u>	<u>1,929,386</u>
Total net position	<u>\$ 1,827,664</u>	<u>\$ 3,975,911</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the ESC's assets exceeded liabilities by \$1,827,664. Of this total, \$1,026,341 is unrestricted in use.

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MAHONING COUNTY, OHIO**

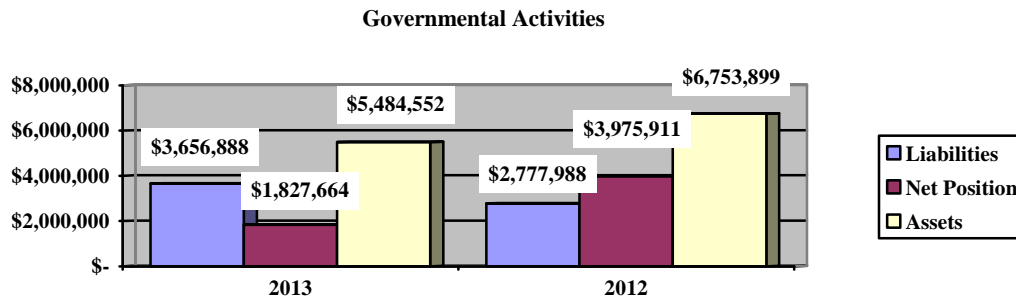
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Overall, assets for the ESC decreased and liabilities increased. Although the ESC reported increased cash balances at year-end, receivables (grants and billings for user-charged services) decreased significantly due to higher amounts collected during the year. The increase in liabilities is mostly due to a larger amount of unearned revenue, which represents payments made by member organizations to the Center for services that have yet to be provided by year-end.

At June 30, 2013, capital assets represented 2.51% of total assets. Capital assets include land improvements, furniture and equipment and vehicles. The net investment in capital assets at June 30, 2013 was \$100,777. These capital assets are used to provide services to the students and are not available for future spending.

At June 30, 2013, a portion of the ESC's net position, \$700,546, represents resources that are subject to external restriction on how they may be used. Of this total, \$324,129 represents resources that are restricted for the ESC's federally funded grant programs. The remaining balance of unrestricted net position at June 30, 2013 of \$1,026,341 may be used to meet the ESC's ongoing obligations to students and creditors.

The table below illustrates the ESC's assets, liabilities and net position at June 30, 2013 and 2012.



The table below shows the change in net position for fiscal years 2013 and 2012.

**Change in Net Position**

	Governmental Activities 2013	Governmental Activities 2012
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 16,061,500	\$ 15,765,104
Operating grants and contributions	3,707,781	4,749,296
General revenues:		
Grants and entitlements	1,685,600	1,789,820
Investment earnings	18,669	23,056
Other	137,438	64,512
<b>Total revenues</b>	<b>21,610,988</b>	<b>22,391,788</b>

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Change in Net Position (Continued)**

	<u>Governmental Activities 2013</u>	<u>Governmental Activities 2012</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 1,907,566	\$ 1,802,789
Special	5,869,869	5,926,244
Vocational	64,379	63,679
Adult/continuing	83,020	34,156
Support services:		
Pupil	5,960,157	5,332,952
Instructional staff	6,313,125	5,900,650
Board of education	39,283	48,533
Administration	1,211,356	1,097,068
Fiscal	633,110	665,218
Business	327,314	321,027
Operations and maintenance	270,339	355,793
Pupil transportation	5,235	49,173
Central	936,947	676,464
Operation of non-instructional services	127,950	185,303
Extracurricular activities	7,518	1,756
Interest and fiscal charges	<u>2,067</u>	<u>-</u>
Total expenses	<u>23,759,235</u>	<u>22,460,805</u>
Change in net position	(2,148,247)	(69,017)
Net position at beginning of year	<u>3,975,911</u>	<u>4,044,928</u>
Net position at end of year	<u>\$ 1,827,664</u>	<u>\$ 3,975,911</u>

**Governmental Activities**

Net position of the ESC's governmental activities decreased \$2,148,247. Total governmental expenses of \$23,759,235 were offset by program revenues of \$19,769,281 and general revenues of \$1,841,707. Program revenues supported 83.21% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from charges for services and sales, and operating grants and contributions. These revenue sources represent 91.48% of total governmental revenue. Overall, revenues decreased slightly in 2013. Most of this decrease came from operating grants and contributions, which is primarily the result of decreased grant revenue from the federal government, particularly for the vocational rehabilitation grant program.

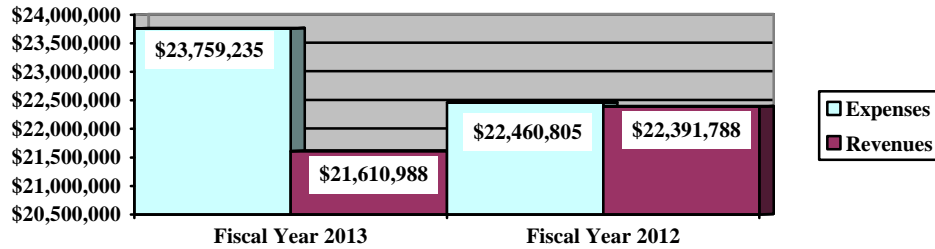
The largest expense of the ESC is for pupil and instructional staff support services, which were \$12,273,282 or 51.66% of total governmental expenses for fiscal year 2013. Instruction expenses accounted for another \$7,924,834 or 33.35% of the total expenses.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The graph below presents the ESC's governmental activities revenues and expenses for fiscal years 2013 and 2012.

**Governmental Activities - Revenues and Expenses**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by general revenues such as unrestricted grants and entitlements.

**Governmental Activities**

	Total Cost of Services 2013	Net Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2012
<b>Program expenses</b>				
Instruction:				
Regular	\$ 1,907,566	\$ 1,853,932	\$ 1,802,789	\$ 1,775,483
Special	5,869,869	57,977	5,926,244	(501,691)
Vocational	64,379	64,379	63,679	63,679
Adult/continuing	83,020	8,744	34,156	1,153
Support services:				
Pupil	5,960,157	397,976	5,332,952	(315,429)
Instructional staff	6,313,125	833,450	5,900,650	(242,423)
Board of education	39,283	38,783	48,533	28,033
Administration	1,211,356	39,430	1,097,068	(24,618)
Fiscal	633,110	39,484	665,218	(66,141)
Business	327,314	327,314	321,027	321,027
Operations and maintenance	270,339	235,819	355,793	210,777
Pupil transportation	5,235	1,535	49,173	(126)
Central	936,947	24,825	676,464	672,864
Operation of non-instructional services	127,950	65,613	185,303	31,144
Extracurricular activities	7,518	(1,374)	1,756	(7,327)
Interest and fiscal charges	2,067	2,067	-	-
<b>Total expenses</b>	<b>\$ 23,759,235</b>	<b>\$ 3,989,954</b>	<b>\$ 22,460,805</b>	<b>\$ 1,946,405</b>

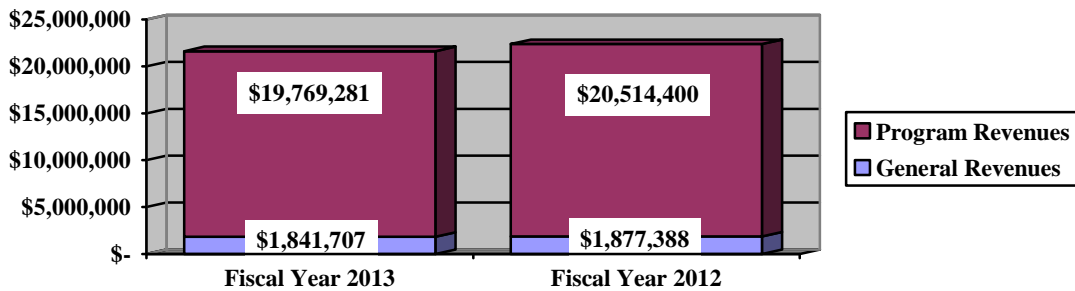
The ESC's charges for services and sales and operating grants and contributions, as a whole, are the primary support for ESC's students. Nonetheless, the dependence upon other general revenues for governmental activities is apparent; 25.05% of instruction activities are supported through other general revenues. For all governmental activities, general revenue support is 16.79%.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The graph below presents the ESC's governmental activities revenue for fiscal years 2013 and 2012.

**Governmental Activities - General and Program Revenues**



**The ESC's Funds**

The ESC's governmental funds reported a combined fund balance of \$1,850,498, which is higher than last year's total of \$1,612,051. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and 2012.

	Fund Balance <u>June 30, 2013</u>	Fund Balance <u>June 30, 2012</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 585,755	\$ 433,947	\$ 151,808	34.98 %
Permanent improvement	610,000	490,000	120,000	24.49 %
Nonmajor governmental	<u>654,743</u>	<u>688,104</u>	<u>(33,361)</u>	(4.85) %
Total	<u>\$ 1,850,498</u>	<u>\$ 1,612,051</u>	<u>\$ 238,447</u>	14.79 %

**General Fund**

The ESC's general fund balance increased by \$151,808. The tables that follow assist in illustrating the financial activities and fund balance of the general fund.

	2013 <u>Amount</u>	2012 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Customer services	\$ 3,683,560	\$ 2,979,612	\$ 703,948	23.63 %
Tuition	13,317,497	12,666,123	651,374	5.14 %
Earnings on investments	18,862	27,206	(8,344)	(30.67) %
Intergovernmental	1,747,533	1,944,126	(196,593)	(10.11) %
Other revenues	<u>137,842</u>	<u>63,715</u>	<u>74,127</u>	116.34 %
Total	<u>\$ 18,905,294</u>	<u>\$ 17,680,782</u>	<u>\$ 1,224,512</u>	6.93 %

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>2013</u> <u>Amount</u>	<u>2012</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Expenditures</u></b>				
Instruction	\$ 7,730,304	\$ 7,545,276	\$ 185,028	2.45 %
Support services	10,812,574	9,579,155	1,233,419	12.88 %
Non-instructional services	125,654	180,974	(55,320)	(30.57) %
Debt service	<u>7,326</u>	<u>-</u>	<u>7,326</u>	100.00 %
Total	<u>\$ 18,675,858</u>	<u>\$ 17,305,405</u>	<u>\$ 1,370,453</u>	7.92 %

The primary source of revenue for the general fund comes from customer services revenue and tuition revenue, which collectively comprise the revenue earned from services provided to other school districts. These two revenues sources combined, which accounted for 89.93% of total general fund revenues in 2013, increased \$1,355,322 or 8.66% compared to the prior year. The only significant decrease in revenues was intergovernmental revenues. A significant contributing factor is this decrease is the State Budget Bill in place for fiscal year 2013, which stipulated that Educational Service Centers throughout the State would receive 15% less in per-pupil funding compared to fiscal year 2012.

General fund expenditures increased in fiscal year 2013, mostly due to increased service requests from member districts. The debt service expenditures represent payments made on a new capital lease agreement for copiers.

***Permanent Improvement Fund***

The permanent improvement fund is used to accumulate resources for the capital replacement needs of the ESC. The fund had other financing sources, consisting of transfers from the general fund, of \$120,000. During fiscal year 2013, the permanent fund's fund balance increased from \$490,000 to \$610,000.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2013, the ESC had \$137,890 invested in land improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2013 balances compared to June 30, 2012:

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

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Land improvements	\$ 745	\$ 1,241
Furniture and equipment	137,145	168,606
Vehicles	<u>-</u>	<u>1,701</u>
Total	<u>\$ 137,890</u>	<u>\$ 171,548</u>

The overall decrease in capital assets of \$33,658 is due to depreciation expense of \$86,023 exceeding capital outlays of \$52,365 in the fiscal year.

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



**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

***Debt Administration***

At June 30, 2013, the ESC had a capital lease obligation outstanding in the amount of \$37,113. Of this total, \$7,447 is due within one year and \$29,666 is due in more than one year. See Note 9 to the basic financial statements for additional information on the ESC's debt administration.

**Current Financial Related Activities**

The ESC relies heavily on contracts with local, city, parochial and community schools in Mahoning County, State foundation revenue, grants and the fiscal agency role we provide to several entities. The ESC's financial condition has remained stable. Through new contracts with locals, sponsorship capability and providing the fiscal and administrative role to several entities, the ESC will be able to provide the necessary funds to meet operating expenses in the future.

There are some challenges that the ESC faces that can affect funding. One challenge the ESC faces is the State's financial situation. The State has reduced dollars to the ESC's State foundation, major programs and grants. These funds provide support to the ESC's programs that are offered to the districts the ESC serves. Without these funds local districts are forced to pay more of the services they contract for. The ESC is very sensitive to the cost of its programs to Mahoning County districts. Because of the funding reductions made from the State, the ESC's districts may be forced to contract for services from other entities who offer a better price.

**Contacting the ESC's Financial Management**

This financial report is designed to provide our citizens, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Blaise Karlovic, Treasurer, Mahoning County Educational Service Center, 100 DeBartolo Place, Suite 220, Youngstown, Ohio 44512-7019.

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2013

	<b>Primary Government</b>	<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Mahoning Unlimited Classroom</b>
<b>Assets:</b>		
Equity in pooled cash and investments. . . . .	\$ 3,474,756	\$ 399,116
Receivables:		
Accounts. . . . .	2,965	-
Intergovernmental . . . . .	1,828,282	-
Accrued interest . . . . .	10,140	-
Materials and supplies inventory. . . . .	30,519	-
Capital assets:		
Depreciable capital assets, net. . . . .	137,890	88,273
Capital assets, net . . . . .	137,890	88,273
Total assets. . . . .	<u>5,484,552</u>	<u>487,389</u>
<b>Liabilities:</b>		
Accounts payable. . . . .	108,303	146
Accrued wages and benefits payable . . . . .	1,766,477	-
Pension obligation payable. . . . .	312,420	-
Intergovernmental payable . . . . .	102,738	48,167
Unearned revenue . . . . .	584,152	-
Long-term liabilities:		
Due within one year. . . . .	272,460	-
Due in more than one year . . . . .	510,338	-
Total liabilities . . . . .	<u>3,656,888</u>	<u>48,313</u>
<b>Net position:</b>		
Net investment in capital assets . . . . .	100,777	88,273
Restricted for:		
Capital projects . . . . .	16,899	-
Locally funded programs . . . . .	256,684	-
State funded programs. . . . .	79,183	7,000
Federally funded programs . . . . .	324,129	13,183
Student activities . . . . .	8,701	-
Other purposes . . . . .	14,950	-
Unrestricted. . . . .	1,026,341	330,620
Total net position. . . . .	<u>\$ 1,827,664</u>	<u>\$ 439,076</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services and Sales	Operating Grants and Contributions	Primary Governmental Activities	Component Unit
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 1,907,566	\$ 25,213	\$ 28,421	\$ (1,853,932)	\$ -
Special . . . . .	5,869,869	5,740,406	71,486	(57,977)	-
Vocational . . . . .	64,379	-	-	(64,379)	-
Adult/continuing. . . . .	83,020	-	74,276	(8,744)	-
Support services:					
Pupil. . . . .	5,960,157	5,136,567	425,614	(397,976)	-
Instructional staff . . . . .	6,313,125	2,733,622	2,746,053	(833,450)	-
Board of education . . . . .	39,283	-	500	(38,783)	-
Administration. . . . .	1,211,356	1,043,988	127,938	(39,430)	-
Fiscal. . . . .	633,110	479,160	114,466	(39,484)	-
Business. . . . .	327,314	-	-	(327,314)	-
Operations and maintenance . . . . .	270,339	2,688	31,832	(235,819)	-
Pupil transportation. . . . .	5,235	-	3,700	(1,535)	-
Central . . . . .	936,947	890,560	21,562	(24,825)	-
Operation of non-instructional services . . . . .	127,950	404	61,933	(65,613)	-
Extracurricular activities. . . . .	7,518	8,892	-	1,374	-
Interest and fiscal charges . . . . .	2,067	-	-	(2,067)	-
Total governmental activities . . . . .	<u>\$ 23,759,235</u>	<u>\$ 16,061,500</u>	<u>\$ 3,707,781</u>	<u>(3,989,954)</u>	<u>-</u>
<b>Component unit:</b>					
Mahoning Unlimited Classroom . . . . .	<u>\$ 1,306,791</u>	<u>\$ 59,275</u>	<u>\$ 130,840</u>	<u>-</u>	<u>(1,116,676)</u>
<b>General revenues:</b>					
Grants and entitlements not restricted to specific programs . . . . .					
				1,685,600	991,018
Investment earnings . . . . .					
				18,669	105
Miscellaneous . . . . .					
				137,438	3,157
Total general revenues . . . . .					
				<u>1,841,707</u>	<u>994,280</u>
Change in net position . . . . .					
				(2,148,247)	(122,396)
<b>Net position at beginning of year . . . . .</b>					
				<u>3,975,911</u>	<u>561,472</u>
<b>Net position at end of year. . . . .</b>					
				<u>\$ 1,827,664</u>	<u>\$ 439,076</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013

	General	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in pooled cash and investments . . . . .	\$ 2,316,244	\$ 610,000	\$ 548,512	\$ 3,474,756
Receivables:				
Accounts . . . . .	2,488	-	477	2,965
Intergovernmental . . . . .	1,193,340	-	634,942	1,828,282
Accrued interest . . . . .	10,140	-	-	10,140
Interfund loans . . . . .	213,266	-	-	213,266
Materials and supplies inventory . . . . .	30,519	-	-	30,519
Loans to other funds . . . . .	2,614	-	-	2,614
Total assets . . . . .	<u>\$ 3,768,611</u>	<u>\$ 610,000</u>	<u>\$ 1,183,931</u>	<u>\$ 5,562,542</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 24,327	\$ -	\$ 83,976	\$ 108,303
Accrued wages and benefits payable . . . . .	1,680,193	-	86,284	1,766,477
Compensated absences payable . . . . .	121,564	-	-	121,564
Pension obligation payable . . . . .	293,456	-	18,964	312,420
Intergovernmental payable . . . . .	82,776	-	19,962	102,738
Interfund loans payable . . . . .	-	-	213,266	213,266
Loans from other funds . . . . .	-	-	2,614	2,614
Unearned revenue . . . . .	584,152	-	-	584,152
Total liabilities . . . . .	<u>2,786,468</u>	<u>-</u>	<u>425,066</u>	<u>3,211,534</u>
<b>Deferred inflows of resources:</b>				
Customer services revenue not available . . . . .	389,675	-	-	389,675
Accrued interest not available . . . . .	6,713	-	-	6,713
Intergovernmental revenue not available . . . . .	-	-	104,122	104,122
Total deferred inflows of resources . . . . .	<u>396,388</u>	<u>-</u>	<u>104,122</u>	<u>500,510</u>
<b>Fund balances:</b>				
Nonspendable:				
Materials and supplies inventory . . . . .	30,519	-	-	30,519
Long-term loans . . . . .	2,614	-	-	2,614
Unclaimed monies . . . . .	3,350	-	-	3,350
Restricted:				
Capital improvements . . . . .	-	-	16,899	16,899
Special education . . . . .	-	-	37,321	37,321
Targeted academic assistance . . . . .	-	-	5,512	5,512
Other purposes . . . . .	-	-	594,145	594,145
Student activities . . . . .	-	-	8,701	8,701
Committed:				
Capital improvements . . . . .	-	610,000	-	610,000
Assigned:				
Student instruction . . . . .	69,634	-	-	69,634
Student and staff support . . . . .	100,816	-	-	100,816
Non-instructional services . . . . .	30,183	-	-	30,183
Other purposes . . . . .	122,721	-	-	122,721
Unassigned (deficit) . . . . .	225,918	-	(7,835)	218,083
Total fund balances . . . . .	<u>585,755</u>	<u>610,000</u>	<u>654,743</u>	<u>1,850,498</u>
Total liabilities, deferred inflows and fund balances .	<u>\$ 3,768,611</u>	<u>\$ 610,000</u>	<u>\$ 1,183,931</u>	<u>\$ 5,562,542</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2013

<b>Total governmental fund balances</b>		\$	1,850,498
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			137,890
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Customer services receivable	\$	389,675	
Earnings on investments receivable		6,713	
Intergovernmental receivable		104,122	
Total		500,510	500,510
Long-term liabilities, such as compensated absences and capital leases, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(624,121)	
Capital lease obligations		(37,113)	
Total		(661,234)	(661,234)
<b>Net position of governmental activities</b>		\$	1,827,664

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Tuition . . . . .	\$ 13,317,497	\$ -	\$ 175,550	\$ 13,493,047
Earnings on investments . . . . .	18,862	-	-	18,862
Customer services . . . . .	3,683,560	-	-	3,683,560
Charges for services . . . . .	404	-	-	404
Other local revenues . . . . .	137,438	-	35,348	172,786
Intergovernmental - intermediate . . . . .	-	-	101,937	101,937
Intergovernmental - state . . . . .	1,687,927	-	665,429	2,353,356
Intergovernmental - federal . . . . .	59,606	-	4,044,826	4,104,432
Total revenues . . . . .	<u>18,905,294</u>	<u>-</u>	<u>5,023,090</u>	<u>23,928,384</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	1,863,608	-	29,881	1,893,489
Special . . . . .	5,803,059	-	87,523	5,890,582
Vocational . . . . .	63,637	-	-	63,637
Adult/continuing . . . . .	-	-	82,228	82,228
Support services:				
Pupil . . . . .	5,189,125	-	746,634	5,935,759
Instructional staff . . . . .	2,566,823	-	3,721,621	6,288,444
Board of education . . . . .	31,033	-	8,250	39,283
Administration . . . . .	1,054,338	-	151,821	1,206,159
Fiscal . . . . .	483,888	-	149,115	633,003
Business . . . . .	362,708	-	-	362,708
Operations and maintenance . . . . .	225,434	-	42,634	268,068
Pupil transportation . . . . .	-	-	5,235	5,235
Central . . . . .	899,225	-	23,991	923,216
Operation of non-instructional services . . . . .	125,654	-	-	125,654
Extracurricular activities . . . . .	-	-	7,518	7,518
Debt service:				
Principal retirement . . . . .	5,259	-	-	5,259
Interest and fiscal charges . . . . .	2,067	-	-	2,067
Total expenditures . . . . .	<u>18,675,858</u>	<u>-</u>	<u>5,056,451</u>	<u>23,732,309</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>229,436</u>	<u>-</u>	<u>(33,361)</u>	<u>196,075</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	120,000	-	120,000
Transfers (out) . . . . .	(120,000)	-	-	(120,000)
Capital lease transaction . . . . .	42,372	-	-	42,372
Total other financing sources (uses) . . . . .	<u>(77,628)</u>	<u>120,000</u>	<u>-</u>	<u>42,372</u>
Net change in fund balances . . . . .	151,808	120,000	(33,361)	238,447
<b>Fund balances at beginning of year . . . . .</b>	<u>433,947</u>	<u>490,000</u>	<u>688,104</u>	<u>1,612,051</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 585,755</u>	<u>\$ 610,000</u>	<u>\$ 654,743</u>	<u>\$ 1,850,498</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<b>Net change in fund balances - total governmental funds</b>	\$	238,447
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 52,365	
Current year depreciation	<u>(86,023)</u>	
Total		(33,658)
 Governmental funds report deferred inflows of resources for assets that are not available to pay for current-period expenditures, whereas in the statement of activities they are reported as revenues.		
Customer services	(1,150,209)	
Earnings on investments	(193)	
Intergovernmental	<u>(1,166,994)</u>	
Total		(2,317,396)
 The capital lease transaction is recorded as an other financing source in the funds; however, in the statement of activities, it is not reported as an other financing source as it increases liabilities on the statement of net position.		
		(42,372)
 Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		5,259
 Some expenses reported in the statement of activities, including compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>1,473</u>
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u><u>(2,148,247)</u></u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2013

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and investments. . . .	\$ 1,047,275
Receivables:	
Accounts . . . . .	3,433
Intergovernmental. . . . .	211,055
Total assets . . . . .	\$ 1,261,763
<b>Liabilities:</b>	
Accounts payable. . . . .	\$ 51,575
Accrued wages and benefits . . . . .	14,846
Intergovernmental payable . . . . .	8,129
Pension obligation payable. . . . .	6,901
Undistributed monies. . . . .	1,180,312
Total liabilities . . . . .	\$ 1,261,763

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 1 - DESCRIPTION OF THE ESC**

On July 18, 1914, the Mahoning County Governing Board was formed. In 1996 the Governing Board, as required by State law, underwent a name change to the Mahoning County Educational Service Center (the "ESC"). The ESC provides administrative, curricular, instructional, pupil personnel and professional staff development services to local school districts. Direct instructional programs are provided to students with disabilities, preschool students and their families.

The ESC operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State and federal agencies. The Governing Board oversees the ESC's operation and its staff of 196 certified and 68 non-certified personnel. Staff members support the educational efforts of 15 school districts, 2 community schools and various other entities throughout the County.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations and student related activities of the ESC.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's Governing Board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the ESC has one component unit, which is discussed below.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

The ESC sponsors the Mahoning County High School (the "School"), which is a legally separate, start-up community school. The ESC acts as fiscal agent for the School; however, the ESC is not fiscally accountable, therefore the School is not reported as part of the reporting entity of the ESC.

*COMPONENT UNIT*

Mahoning Unlimited Classroom ("MUC")

The MUC is a legally separate, conversion community school, served by a Board of Directors. The MUC focuses on providing students with curriculum and instruction via distance learning technology. The seven person Board of Directors, appointed by the ESC, consists of three persons employed in administrator positions with the ESC, one person employed in an administrator position with the Mahoning County Career and Technical Center ("MCCT"), one person who is neither an officer nor employee of the ESC or MCCT who shall be a public educator or other public officer, one person who is appointed to represent the interests of the parents and students of the MUC, and the MUC's Treasurer. The MUC Treasurer is a non-voting ex-officio of the Board of Directors. The ESC sponsored the MUC during fiscal year 2013 under Ohio Revised Code Chapter 3314. Based on the significant services provided by the ESC to the MUC, the MUC's purpose of service to the students within the district, and the relationship between the Governing Board of the ESC and the Board of Directors of the MUC, the MUC is a component unit of the ESC. Separately issued financial statements can be obtained from the ESC's Treasurer. See Note 16 for additional information on the MUC.

*JOINTLY GOVERNED ORGANIZATIONS*

Area Cooperative Computerized Educational Service System (ACCESS)

ACCESS is a jointly governed organization among 23 school districts, 1 community school, 1 special education resource center, 2 county educational service centers and 2 career and technical centers. The jointly governed 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 districts. The eight-member Board of Directors consists of 2 treasurers and 6 superintendents from participating school districts. The ACCESS executive director and treasurer are ex-officio members of the Board of Directors. The degree of control exercised by any participating school district is limited to its representation on the Board. The ESC is the fiscal agent for the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting and designating management. The consortium revenues are generated from charges for services, State funding and E-rateable services.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

State Support Team Region 5 (SST)

The SST is a jointly governed organization among the school districts located in Trumbull, Mahoning and Columbiana Counties and Youngstown City. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement and in particular, to improvements in instructional programs.

The SST is governed by a Governing Board made up of 19 representatives of the participating school districts, the business community and Youngstown State University. Members' terms rotate annually. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. The ESC serves as fiscal agent for the SST.

*RELATED ORGANIZATION*

Mahoning County Career and Technical Center

The Mahoning County Career and Technical Center is a joint vocational school district as defined by Section 3311.18 of the Ohio Revised Code. The 5 members of the Governing Board of the ESC are also members of the Governing Board of the Mahoning County Career and Technical Center, which includes 2 other members. The Governing Board of the ESC cannot directly impose their will on the Mahoning County Career and Technical Center.

*PUBLIC ENTITY RISK POOLS*

Ohio Association of School Business Officials

The ESC participates in a group rating plan (GRP) for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement Inc. provides administrative, cost control and actuarial services to the GRP. Each year, the ESC pays an enrollment fee to the GRP to cover the costs of administering the program.

Mahoning County Insurance Consortium

The Mahoning County Insurance Consortium is a shared risk pool comprised of 11 Mahoning County school districts. The consortium is governed by an assembly, which consists of 1 representative from each participating school district (usually the superintendent or designee). The assembly elects officers for 1 year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

**B. Fund Accounting**

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

*GOVERNMENTAL FUNDS*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities plus deferred inflows of resources is reported as fund balance. The following are the ESC's major governmental funds:

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

*Permanent improvement fund* -This fund is used to account for the accumulation of resources to be used for the future capital needs of the ESC.

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

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. The ESC's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

**C. Basis of Presentation and Measurement Focus**

*Government-wide Financial Statements* - The statement of net position and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the ESC are included on the statement of net position.

*Fund Financial Statements* - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

**D. Basis of Accounting**

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

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

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: tuition, grants and contract services.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

*Deferred Inflows of Resources, Deferred Outflows of Resources and Unearned Revenue* - A deferred inflow of resources is an acquisition of net position by the ESC that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the ESC that is applicable to a future reporting period.

Revenues received in advance of the fiscal year for which they were intended to finance have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred inflows on the governmental fund financial statements.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources.

*Expenses/Expenditures* - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgetary Process**

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Board approve appropriations and estimated resources. The ESC's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

**F. State Funding**

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC.

If additional funding is required and if a majority of the Boards of Education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their State foundation. The State Board of Education initiates and supervises the procedure by which the participating Boards approve or disapprove the apportionment.



**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

**G. Cash and Investments**

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

During fiscal year 2013, investments were limited to federal agency securities, negotiable CDs, money market mutual funds and State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

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 SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on June 30, 2013.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$18,862, which includes \$9,926 assigned from other ESC funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the ESC's investment account at year end is provided in Note 4.

**H. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method. Inventory consists of expendable supplies held for consumption.

On the fund financial statements, reported supplies inventory is equally offset by nonspendable fund balance which indicates that it does not constitute available spendable resources, even though it is a component of net current assets.

**I. Capital Assets**

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC maintains a capitalization threshold of \$1,000. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 years
Furniture and equipment	5 - 15 years
Vehicles	10 - 11 years

**J. Compensated Absences**

GASB Statement No. 16, "Accounting for Compensated Absences", specifies the method used to accrue liabilities for leave benefits. 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 ESC will compensate the employees for the benefits through paid time off or some other means. The ESC records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that is probable that benefits will result in termination payments. The liability is an estimate based on the ESC's past experience of making termination payments.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2013 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee's retirement/resignation has been incurred by fiscal year end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid.

**K. Interfund Balances**

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable." On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as "loans to/from other funds". These amounts are eliminated in the governmental type activities columns of the statement of net position.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**L. Pass-Through Grants**

The ESC is the primary recipient of grants, which are passed-through to or spent on behalf of the local school districts within the County. When the ESC has a financial or administrative role in the grants, the grants are reported as revenues and expenditures in a nonmajor governmental fund. Grants in which the ESC has no financial or administrative role and are passed-through to the local school districts in the County are reported in an agency fund.

**M. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations 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 that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Leases are recognized as a liability on the fund financial statements when due.

**N. Fund Balance**

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

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

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

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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

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

**O. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the ESC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for education foundation.

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

**P. Estimates**

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

**Q. Interfund Activity**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2013.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2013, the ESC has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the ESC.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the ESC.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the ESC.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the ESC's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. For the ESC, the implementation of GASB Statement No. 65 has changed the classification of certain items, including the deferral of revenues, previously reported as liabilities to *deferred inflows of resources*.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the ESC.

**B. Deficit Fund Balances**

Fund balances at June 30, 2013 included the following individual fund deficits:

<u>Nonmajor funds:</u>	<u>Deficit</u>
Public school preschool	\$ 5,260
Alternative schools	888
Miscellaneous state grants	1,687

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Deposits with Financial Institutions**

At June 30, 2013, the carrying amount of all ESC deposits was \$1,259,504. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$2,404,249 of the ESC's bank balance of \$2,654,249 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

**B. Investments**

As of June 30, 2013, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FHLB	\$ 701,852	\$ -	\$ -	\$ -	\$ -	\$ 701,852
FNMA	683,083	-	-	253,180	-	429,903
Negotiable CDs	1,750,268	-	-	651,215	-	1,099,053
Money market mutual funds	104,294	104,294	-	-	-	-
STAR Ohio	23,030	23,030	-	-	-	-
<b>Total</b>	<b>\$ 3,262,527</b>	<b>\$ 127,324</b>	<b>\$ -</b>	<b>\$ 904,395</b>	<b>\$ -</b>	<b>\$ 2,230,808</b>

The weighted average maturity of investments is 2.60 years.

*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 ESC's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* STAR Ohio and U.S. Government money market mutual funds carry a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The ESC's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The ESC's investment policy does not specifically address credit risk beyond requiring the ESC to invest in securities authorized by State statute.



**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the ESC's name. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk:* The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 701,852	21.51
FNMA	683,083	20.94
Negotiable CDs	1,750,268	53.65
Money market		
mutual funds	104,294	3.20
STAR Ohio	<u>23,030</u>	<u>0.70</u>
Total	<u>\$ 3,262,527</u>	<u>100.00</u>

**C. Reconciliation of Cash and Investments to the Statement of Net Position**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,259,504
Investments	<u>3,262,527</u>
Total	<u>\$ 4,522,031</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 3,474,756
Agency funds	<u>1,047,275</u>
Total	<u>\$ 4,522,031</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund transfers for the year ended June 30, 2013 consisted of the following as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Permanent improvement fund	\$120,000

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated in the statement of activities.

- B.** Interfund balances at June 30, 2013 as reported on the fund statements, consist of the following “loans to/from other funds”:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 2,614

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2013 are reported on the statement of net position.

- C.** Interfund balances at June 30, 2013 as reported on the fund statements, consist of the following “interfund loans receivable/payable”:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 213,266

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2013 are reported on the statement of net position.

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2013 consisted of accounts (fees and other charges for services), intergovernmental grants and fees charged to other governmental entities and accrued interest. All receivables are considered collectible in full. A summary of the items of receivables reported on the statement of net position follows:

**Governmental activities:**

Accounts	\$ 2,965
Intergovernmental	1,828,282
Accrued interest	<u>10,140</u>
Total	<u>\$ 1,841,387</u>

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

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance			Balance
	<u>06/30/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>06/30/13</u>
<b>Governmental activities:</b>				
<i>Capital assets, being depreciated:</i>				
Land improvements	\$ 2,482	\$ -	\$ -	\$ 2,482
Furniture and equipment	1,570,972	52,365	-	1,623,337
Vehicles	<u>67,140</u>	<u>-</u>	<u>-</u>	<u>67,140</u>
Total capital assets, being depreciated	<u>1,640,594</u>	<u>52,365</u>	<u>-</u>	<u>1,692,959</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,241)	(496)	-	(1,737)
Furniture and equipment	(1,402,366)	(83,826)	-	(1,486,192)
Vehicles	<u>(65,439)</u>	<u>(1,701)</u>	<u>-</u>	<u>(67,140)</u>
Total accumulated depreciation	<u>(1,469,046)</u>	<u>(86,023)</u>	<u>-</u>	<u>(1,555,069)</u>
Governmental activities capital assets, net	<u>\$ 171,548</u>	<u>\$ (33,658)</u>	<u>\$ -</u>	<u>\$ 137,890</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 5,161
Special	23,588
Vocational	267
Adult/continuing	792

Support services:

Pupil	11,502
Instructional staff	19,017
Administration	13,458
Fiscal	2,014
Business	3,360
Operations and maintenance	4,067
Central	501
Operation of non-instructional services	<u>2,296</u>
Total depreciation expense	<u>\$ 86,023</u>

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

During fiscal year 2013, the ESC entered into a lease agreement for the acquisition of copiers. The lease qualifies as a capital lease for accounting purposes and, therefore, a liability has been recorded at the present value of the future minimum lease payments at inception. Capital assets consisting of equipment have been capitalized in the amount of \$42,372. Accumulated depreciation at June 30, 2013 was \$1,926 leaving a current book value of \$40,446.

Principal and interest payments are made from the general fund and totaled \$5,259 and \$2,067, respectively, for fiscal year 2013. The following is a schedule of the future long-term minimum lease payments required under the lease agreement and the present value of the minimum lease payments as of June 30, 2013.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 9,768
2015	9,768
2016	9,768
2017	9,768
2018	<u>4,070</u>
Total	43,142
Less: amount representing interest	<u>(6,029)</u>
Present value of minimum lease payments	<u>\$ 37,113</u>

In prior years, the Area Cooperative Computerized Educational Service System (ACCESS), accounted for in an ESC agency fund, entered into capital leases for acquiring and equipping a fiber optic network and additional hardware and equipment. In December of 2009, ACCESS refinanced these leases by entering into a \$3,878,000 lease agreement. The lease has an annual interest rate of approximately 4.32%. It is payable in twelve semi-annual payments ranging from \$32,669 to \$871,669, including interest, and matures on June 26, 2015.

**NOTE 9 - LONG-TERM OBLIGATIONS**

During fiscal year 2013, the following changes occurred in governmental activities long-term obligations:

	<u>Balance Outstanding 06/30/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/13</u>	<u>Amounts Due in One Year</u>
Capital lease obligation	\$ -	\$ 42,372	\$ (5,259)	\$ 37,113	\$ 7,447
Compensated absences	<u>682,305</u>	<u>322,802</u>	<u>(259,422)</u>	<u>745,685</u>	<u>265,013</u>
Total	<u>\$ 682,305</u>	<u>\$ 365,174</u>	<u>\$ (264,681)</u>	<u>\$ 782,798</u>	<u>\$ 272,460</u>

Compensated absences will be paid from the fund from which the employee's salaries are paid which is primarily the general fund. The capital lease is paid from the general fund; see Note 8 for more detail.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 10 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from the negotiated agreement and State laws. Classified employees earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and certificated personnel employed for less than 260 days do not earn vacation time. 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 260 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 53 days.

**B. Life Insurance**

The ESC provides life insurance and accidental death and dismemberment insurance to most employees through Union Security Insurance Company, in the amount of \$25,000.

**NOTE 11 - RISK MANAGEMENT**

**A. Property and Liability**

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the ESC contracted with the School Insurance Consultants for property and general liability insurance.

Professional liability is provided by the Trident Insurance Company with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Vehicles are covered by the Trident Insurance Company and hold a \$50 deductible for comprehensive and a \$500 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

**B. Workers' Compensation**

For fiscal year 2013, the ESC participated in the Ohio School Boards Association and Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual performance 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 members that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 11 - RISK MANAGEMENT - (Continued)**

**C. Employee Medical Benefits**

The ESC has contracted with the Mahoning County Insurance Consortium to provide employee medical/surgical, dental and prescription drug benefits. Monthly premiums are as follows:

	Single Coverage		Family Coverage	
	Employee Share	Board Share	Employee Share	Board Share
<u>Medical Mutual</u>				
Dental	\$ 3.52	\$ 31.73	\$ 8.49	\$ 76.44
Medical	37.41	336.70	209.50	837.98
Prescription	29.81	69.54	125.18	153.00
	Employee/Spouse Coverage		Employee/Children Coverage	
	Employee Share	Board Share	Employee Share	Board Share
<u>Medical Mutual</u>				
Dental	\$ 6.62	\$ 59.63	\$ 5.92	\$ 53.28
Medical	157.12	628.48	127.19	508.78
Prescription	93.89	114.75	76.00	92.88
Life Insurance - \$25,000 \$2,500 for Children, \$5,000 for Spouse	-	3.25	1.60	3.25

**NOTE 12 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 12 - PENSION PLANS - (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$406,446, \$412,184 and \$392,825, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

**B. State Teachers Retirement System of Ohio**

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

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

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

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 12 - PENSION PLANS - (Continued)**

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1,447,076, \$1,383,066 and \$1,419,562, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$95,953 made by the ESC and \$68,538 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2013, certain members of the Board of Education have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.



**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

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

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012 and 2011 were \$86,501, \$100,756 and \$130,857, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$22,960, \$24,342 and \$25,279, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

**B. State Teachers Retirement System of Ohio**

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$111,314, \$106,390 and \$109,197, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

**NOTE 14 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The ESC is not currently party to any legal proceedings that will have a material, if any, effect on the financial statements.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 15 - COMMITMENTS**

The ESC utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the ESC's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 205,886
Nonmajor governmental	<u>709,236</u>
Total	<u>\$ 915,122</u>

**NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL**

Mahoning Unlimited Classroom Community School (the "School") has been determined to be a discretely presented component unit. The ESC's management has determined that it is significant; therefore it has been included as part of the ESC's basic financial statements. The School issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. The report may be obtained by writing to the Treasurer of the Mahoning County Educational Service Center, 100 DeBartolo Place, Suite 220, Youngstown, Ohio 44512-7019.

**A. Significant Accounting Policies**

**Accounting Basis** - The basic financial statements (BFS) of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School's significant accounting policies are described below.

**Basis of Presentation** - Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

**Measurement Focus and Basis of Accounting** - Enterprise fund accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)**

***Budgetary Process*** - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

***Cash and Cash equivalents*** - Cash received by the School is maintained in a demand deposit account and is presented in the financial statements as "cash and cash equivalents".

***Capital Assets and Depreciation*** - Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. The School maintains a capitalization threshold of \$1,000. The School does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Equipment is depreciated over ten years.

***Net Position*** - Net position represents the difference between assets and liabilities. The net position component "net investment in capital assets" consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

***Intergovernmental Revenues*** - The School currently participates in the State Foundation Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Other grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate enrollment data to the State, upon which State Foundation funding is calculated. The School does not anticipate any significant adjustments to state funding for the fiscal year ended June 30, 2013 as a result of the reviews which have yet to be completed.

***Estimates*** - The preparation of financial statements in conformity with GAAP 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.

***Tax Exemption Status*** - The School is a non-profit organization that, in the opinion of legal counsel, is exempt from federal income taxes due to the School qualifying as an integral part of the ESC and the Mahoning County Career and Technical Center.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)**

**B. Deposits and Investments**

At June 30, 2013, the carrying amount of all School deposits was \$399,116. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2013, \$250,000 of the School’s bank balance of \$404,090 was covered by the FDIC, while \$154,090 was exposed to custodial risk as discussed below.

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

**C. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2013</u>
Furniture and equipment	\$ 341,125	\$ -	\$ -	\$ 341,125
Less: accumulated depreciation	<u>(218,739)</u>	<u>(34,113)</u>	<u>-</u>	<u>(252,852)</u>
Capital assets, net	<u>\$ 122,386</u>	<u>\$ (34,113)</u>	<u>\$ -</u>	<u>\$ 88,273</u>

**D. Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2013, professional liability is provided through the ESC’s Trident Insurance Company insurance plan which has a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible.

**E. Purchased Services**

For the fiscal year ended June 30, 2013, purchased service expenses were as follows:

Professional and technical services	\$ 1,020,612
Property services	37,638
Travel expenses	9,501
Communications	28,921
Craft or trade services	<u>5,757</u>
Total	<u>\$ 1,102,429</u>

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)**

**F. Service Agreements**

*Area Cooperative Computerized Educational Service System (ACCESS)* - The School entered into a one-year agreement commencing on July 1, 2012 and ending June 30, 2013, with ACCESS for internet access, electronic mail, Ohio Uniform School Accounting System (USAS), the Uniform Staff Payroll System (USPS), Educational Management Information System (EMIS), Student Information System (SIS/POISE) to include student grade reporting, attendance and scheduling and INFOhio Automated library services. Separate and apart from this agreement, the School agrees to obtain at its own expense, the additional computer and electronic equipment necessary for receipt of these services at the School's facilities. The School paid ACCESS \$2,846 for services during fiscal year 2013.

*Mahoning County ESC* - The School had a service contract with Mahoning County ESC. This contract outlined the services that would be provided to the School, which include fiscal, payroll, administrative, and teaching services. The School's payments to the Mahoning County ESC for the period July 1, 2012 through June 30, 2013 were as follows:

Instructional	\$ 445,116
Student and staff support	268,346
Administrative	174,449
Fiscal	<u>136,003</u>
Total	<u>\$ 1,023,914</u>

**G. Contingencies**

The School 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 School. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2013, if applicable, cannot be determined at this time.

**H. Accountability and Compliance**

For fiscal year 2013, the School has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the School.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)**

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the School.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the School.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the School's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the School.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Tuition . . . . .	\$ 14,943,230	\$ 13,644,419	\$ 13,644,419	\$ -
Earnings on investments . . . . .	12,500	25,263	18,808	(6,455)
Customer services. . . . .	3,000,000	3,677,819	3,696,475	18,656
Other local revenues . . . . .	54,700	127,059	137,213	10,154
Intergovernmental - state. . . . .	-	1,687,927	1,687,927	-
Intergovernmental - federal. . . . .	20,000	59,606	59,606	-
Total revenues . . . . .	<u>18,030,430</u>	<u>19,222,093</u>	<u>19,244,448</u>	<u>22,355</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	1,692,298	1,893,515	1,841,348	52,167
Special. . . . .	5,344,960	5,829,984	5,669,365	160,619
Vocational. . . . .	63,470	66,931	65,087	1,844
Support services:				
Pupil. . . . .	4,932,302	5,222,089	5,078,218	143,871
Instructional staff . . . . .	2,726,093	2,576,425	2,505,443	70,982
Board of education . . . . .	79,704	47,198	45,896	1,302
Administration. . . . .	961,061	1,077,614	1,048,277	29,337
Fiscal . . . . .	338,123	531,840	517,188	14,652
Business . . . . .	308,926	340,067	330,698	9,369
Operations and maintenance. . . . .	214,185	235,930	229,430	6,500
Central. . . . .	784,788	960,487	934,025	26,462
Operation of non-instructional services . . . . .	88,762	163,764	159,252	4,512
Total expenditures . . . . .	<u>17,534,672</u>	<u>18,945,844</u>	<u>18,424,227</u>	<u>521,617</u>
Excess of revenues over expenditures . . . . .	<u>495,758</u>	<u>276,249</u>	<u>820,221</u>	<u>543,972</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	3,000	2,948	2,948	-
Transfers (out) . . . . .	(120,000)	(120,000)	(120,000)	-
Advances (out) . . . . .	-	(213,266)	(213,266)	-
Total other financing sources (uses) . . . . .	<u>(117,000)</u>	<u>(330,318)</u>	<u>(330,318)</u>	<u>-</u>
Net change in fund balance . . . . .	378,758	(54,069)	489,903	543,972
<b>Fund balance at beginning of year. . . . .</b>	944,781	944,781	944,781	-
<b>Prior year encumbrances appropriated . . . . .</b>	516,658	516,658	516,658	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 1,840,197</u>	<u>\$ 1,407,370</u>	<u>\$ 1,951,342</u>	<u>\$ 543,972</u>

SEE ACCOMPANYING NOTES TO THE BUDGETARY COMPARISON SCHEDULES

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**BUDGETARY NOTES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 1 - BUDGETARY PROCESS**

The ESC is not required under State statute to file budgetary information with the State Department of Education. However, the ESC Board does follow the budgetary process for control purposes.

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

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

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

**NOTE 2 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned, committed or restricted fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY, OHIO**

**BUDGETARY NOTES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund are as follows:

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 489,903
Net adjustment for revenue accruals	(554,237)
Net adjustment for expenditure accruals	(241,676)
Net adjustment for other sources/uses	252,691
Funds budgeted elsewhere	(18,867)
Adjustment for encumbrances	223,994
GAAP basis	\$ 151,808

Certain funds that are budgeted in separate funds are considered part of the general fund on a GAAP basis. This includes the rotary fund and the special trust fund.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>FEDERAL GRANTOR/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Expenditures</b>
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education:</i>			
<i>Nutrition Cluster:</i>			
School Breakfast Program	10.553	\$6,221	\$6,221
National School Lunch Program	10.555	<u>13,458</u>	<u>13,458</u>
<b>Total U.S. Department of Agriculture - Nutrition Cluster</b>		19,679	19,679
Child and Adult Care Food Program	10.558	<u>25,632</u>	<u>25,632</u>
<b>Total U.S. Department of Agriculture</b>		<u>45,311</u>	<u>45,311</u>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>			
<i>Direct Programs:</i>			
Fund for the Improvement of Education - Teaching American History	84.215	361,064	361,429
<i>Passed Through Ohio Department of Education:</i>			
<i>Special Education Cluster:</i>			
Special Education_Grants to States (IDEA, Part B)	84.027	1,443,704	1,404,301
Special Education_Preschool Grants	84.173	<u>141,642</u>	<u>140,121</u>
<i>Subtotal - Special Education Cluster</i>		1,585,346	1,544,422
English Language Acquisition Grants (Title III)	84.365	18,120	39,975
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (Education Stabilization Fund)	84.395	<u>594,617</u>	<u>526,659</u>
<b>Total U.S. Department of Education</b>		<u>2,198,083</u>	<u>2,111,056</u>
<i>Passed Through Ohio Department of Health:</i>			
Help Me Grow Early Intervention Program	84.181	320,581	285,639
<i>Passed Through Ohio Rehabilitation Services Commission:</i>			
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	<u>914,426</u>	<u>759,777</u>
<b>Total Federal Awards Receipts and Expenditures</b>		<u><b>\$3,839,465</b></u>	<u><b>\$3,563,212</b></u>

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

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C - MATCHING REQUIREMENTS**

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

**NOTE D - REPORTING**

The ESC's Schedule does not include the federal financial assistance for Mahoning Unlimited Classroom, a component unit of the ESC.



# Dave Yost • Auditor of State

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

Mahoning County Educational Service Center  
Mahoning County  
100 DeBartolo Place Suite 220  
Youngstown, Ohio 44512

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahoning County Educational Service Center, Mahoning County, (the "ESC") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated April 1, 2014, wherein we noted the ESC adopted provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the ESC's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the ESC's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the ESC's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the ESC'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, opining 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*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the ESC's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the ESC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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**Dave Yost**  
Auditor of State  
Columbus, Ohio

April 1, 2014



# Dave Yost • Auditor of State

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

Mahoning County Educational Service Center  
Mahoning County  
100 DeBartolo Place Suite 220  
Youngstown, Ohio 44512

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Mahoning County Educational Service Center's (the "ESC") compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Mahoning County Educational Service Center's major federal programs for the year ended June 30, 2013. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the ESC's major federal programs.

### ***Management's Responsibility***

The ESC's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the ESC's compliance for each of the ESC's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the ESC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the ESC's major programs. However, our audit does not provide a legal determination of the ESC's compliance.

The ESC's basic financial statements include the operations of the Mahoning County Unlimited Classroom, which received \$194,259 in federal awards which is not included in the ESC's Schedule of Federal Awards Receipts and Expenditures for the year ended June 30, 2013.

Our audit of Federal awards, described below, did not include the operations of the Mahoning County Unlimited Classroom because the component unit expended less than \$500,000 for the year ended June 30, 2013 and thus was not required to have an audit of the Federal Awards in accordance with OMB Circular A-133.

### ***Opinion on Each Major Federal Program***

In our opinion, the Mahoning County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as item 2013-001. This finding did not require us to modify our compliance opinion on each major federal program.

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

### ***Report on Internal Control Over Compliance***

The ESC's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the ESC's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the ESC's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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



This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

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**Dave Yost**  
Auditor of State  
Columbus, Ohio

April 1, 2014

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	ARRA-SFSF Race to the Top Incentive Grants (CFDA #84.395); Special Education Cluster (CFDA #84.027 & #84.173); Help Me Grow Early Intervention Program (CFDA #84.181)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2013-001
<b>CFDA Title and Number</b>	ARRA-SFSF Race to the Top Incentive Grants (CFDA #84.395); Special Education Cluster (CFDA #84.027 & #84.173); Help Me Grow Early Intervention Program (CFDA #84.181)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE**

**OMB Circular A-133 Section 200 (b)** states that non-Federal entities that expend \$500,000 or more in a year in Federal awards shall have a single audit conducted in accordance with **Section 500** except when they elect to have a program-specific audit conducted in accordance with paragraph **(c)** of this section.

**OMB Circular A-133 Section 320 (a)** states the audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

The Mahoning County Educational Service Center (the "ESC") did not file its June 30, 2013 data Collection form and reporting package within the time frame as required by OMB Circular A-133 Section 320.

We recommend that the ESC submit its data collection form and reporting package within the time frame as required.

**Official's Response:**

We were able to provide the audit team with the required documentation to complete the necessary components of the audit. Due to unforeseen circumstances, the Auditor was unable to complete their portion of the audit needed for me to submit within the time frame required.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2012-001	The ESC did not file their data collection form and reporting package within the time frame required by OMB Circular A-133 Section 320.	No	Not Corrected. See Finding 2013-001.

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER  
MAHONING COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-001	The ESC will fulfill this requirement in the future.	March 31, 2015	Blaise Karlovic

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# Dave Yost • Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedure

Mahoning County Educational Service Center  
Mahoning County  
100 DeBartolo Place Suite 220  
Youngstown, Ohio 44512

To the Board of Education:

Ohio Revised Code Section 117.53 states "the Auditor of State shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The Auditor of State shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Mahoning County Educational Service Center (the 'ESC') has updated its anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on June 20, 2013 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

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**Dave Yost**  
Auditor of State

April 1, 2014

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# Dave Yost • Auditor of State

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER**

**MAHONING 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 20, 2014**