
Hamilton County Educational Service Center

Basic Financial Statements

Year Ended June 30, 2011

With Independent Auditors' Report



Dave Yost • Auditor of State

Governing Board
Hamilton County Educational Service Center
11083 Hamilton Ave
Cincinnati, Ohio 45231

We have reviewed the *Independent Auditors' Report* of the Hamilton County Educational Service Center, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Hamilton County Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 12, 2012

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INDEPENDENT AUDITORS' REPORT

To the Governing Board
Hamilton County Educational Service Center:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County Educational Service Center as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 18, during the year ended June 30, 2011, the Service Center adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011, on our consideration of the Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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For the budgetary comparison information on pages 43 through 47, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Service Center's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 and is not a required part of the basic financial statements of the Service Center. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 9, 2011

**Hamilton County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

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

Financial Highlights

Key financial highlights for 2011 are as follows:

- Net assets of governmental activities decreased \$1,051,895 which represents a 12.8% decrease from 2010.
- General revenues accounted for \$4,002,891 in revenue or 9.8% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$37,023,227 or 90.2% of total revenues of \$41,026,118 .
- The Center had \$42,078,013 in expenses related to governmental activities; \$37,023,227 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$4,002,891 were also used to provide for these programs.

OVERVIEW OF THE 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 Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center'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 Center's most significant funds with all other nonmajor funds presented in total in one column. The General, Head Start, and Title VI-B Special Education Funds are the major funds of the Center.

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The Government-wide Financial Statements answers this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**Hamilton County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial.

In the Government-wide Financial Statements, the Center presents:

- **Governmental Activities** – All of the Center's programs and services are reported here including instruction, support services, operation of non-instructional services, and interest and fiscal charges.

Fund Financial Statements

The analysis of the Center's major funds begin on the balance sheet. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

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

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Center's own programs.

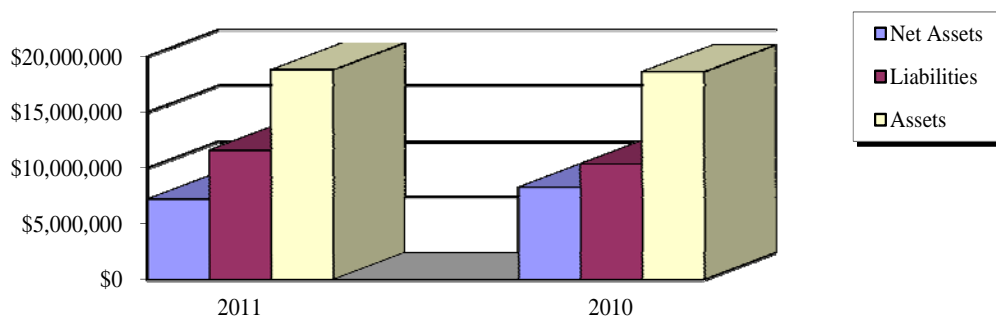
**Hamilton County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

The Center as a Whole

As stated previously, the Statement of Net Assets looks at the Center as a whole. Table 1 provides a summary of the Center's net assets for 2011 compared to 2010:

**Table 1
Net Assets**

	Governmental Activities	
	2011	2010
Assets:		
Current and Other Assets	\$16,168,872	\$15,517,532
Capital Assets	2,596,688	3,060,390
Total Assets	18,765,560	18,577,922
Liabilities:		
Other Liabilities	4,584,279	4,709,304
Long-Term Liabilities	6,988,590	5,624,032
Total Liabilities	11,572,869	10,333,336
Net Assets:		
Invested in Capital Assets, Net of Related Debt	415,688	836,390
Restricted	2,778,129	2,162,123
Unrestricted	3,998,874	5,246,073
Total Net Assets	\$7,192,691	\$8,244,586



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the Center's assets exceeded liabilities by \$7,192,691.

At year-end, capital assets represented 14% of total assets. Capital assets include land, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2011, was \$415,688. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**Hamilton County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

A portion of the Center's net assets, \$2,778,129 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and other assets increased from 2010 mainly due to the increase in accounts receivables due at year end. Long-term liabilities increased mainly due to an increase in compensated absences (the Center offered and some employees accepted a retirement incentive in FY2011) when compared to 2010.

Table 2 shows the changes in net assets for fiscal years 2011 and 2010.

**Table 2
Changes in Net Assets**

	Governmental Activities	
	2011	2010
Revenues:		
Program Revenues		
Charges for Services	\$28,621,189	\$27,368,112
Operating Grants, Contributions	8,402,038	9,080,299
General Revenues:		
Grants and Entitlements	3,826,074	3,810,801
Other	176,817	280,937
Total Revenues	41,026,118	40,540,149
Expenses:		
Instruction	8,074,880	8,084,694
Support Services:		
Pupil and Instructional Staff	15,407,187	14,380,132
School Administrative, General Administration, Fiscal and Business	5,798,868	3,763,826
Operations and Maintenance Central	497,431	412,911
	700,574	678,807
Operation of Non-Instructional Services	11,493,275	12,848,143
Interest and Fiscal Charges	105,798	106,243
Total Expenses	42,078,013	40,274,756
Change in Net Assets	(1,051,895)	265,393
Net Assets Beginning of Year	8,244,586	7,979,193
Net Assets End of Year	\$7,192,691	\$8,244,586

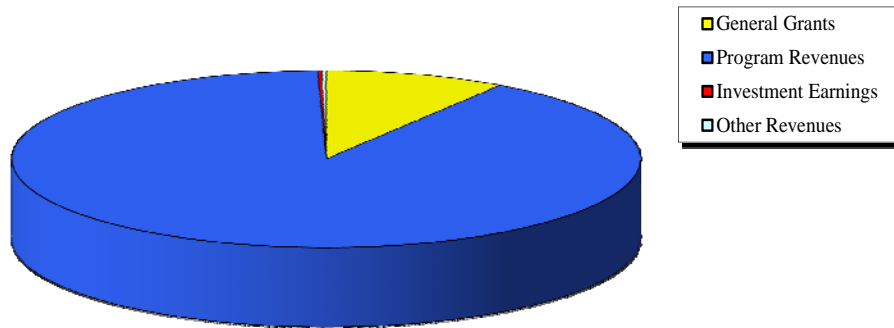
The Center revenues are mainly from three sources, fee for service, operating grants, and state foundation. Fee for service revenues are generated by providing services to districts. The Center and a district enter an agreement specifying the type and amount of service for a period of time, generally not exceeding a school year. Operating grant revenues are awarded to the Center by various state and federal agencies. State foundation revenues are given directly to the Center and are calculated based on the ADM of the districts.

**Hamilton County Educational Service Center
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2011
 (Unaudited)**

The Center's revenues are demonstrated by the following graph:

**Governmental Activities
 Revenue Sources**

		<u>Percentage</u>
General Grants	\$3,826,074	9.33%
Program Revenues	37,023,227	90.24%
Investment Earnings	76,640	0.19%
Other Revenues	<u>100,177</u>	<u>0.24%</u>
Total Revenue Sources	<u><u>\$41,026,118</u></u>	<u><u>100.00%</u></u>



Instruction comprises 19.2% of governmental program expenses. Support services expenses were 53.2% of governmental program expenses. All other expenses including interest expense were 27.6%. Interest expense was attributable to the outstanding capital lease and borrowing for capital projects.

Operating Grants revenue decreased from 2010 mainly due to the loss of ELI funding the Center received in fiscal year 2010 compared to fiscal year 2011. Overall expenses for the current fiscal year increased when compared to 2010 due to the increase in compensated absences (the Center offered and some employees accepted a retirement incentive in FY2011.)

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

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**Hamilton County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction	\$8,074,880	\$8,084,694	(\$989,690)	(\$847,102)
Support Services:				
Pupil and Instructional Staff	15,407,187	14,380,132	(1,387,630)	(1,495,627)
School Administrative, General				
Administration, Fiscal and Business	5,798,868	3,763,826	(1,215,241)	(119,577)
Operations and Maintenance	497,431	412,911	(27,202)	(26,886)
Central	700,574	678,807	(117,824)	23,526
Operation of Non-Instructional Services	11,493,275	12,848,143	(1,211,401)	(1,254,436)
Interest and Fiscal Charges	105,798	106,243	(105,798)	(106,243)
Total Expenses	\$42,078,013	\$40,274,756	(\$5,054,786)	(\$3,826,345)

The Center's Major Funds

The Center has three major governmental funds: the General Fund, Head Start, and Title VI-B Special Education. Assets of the General Fund comprised \$10,721,772 (63%), Head Start comprised \$1,882,829 (11%), and Title VI-B Special Education comprised \$1,120,334 (7%) of the total \$17,003,285 governmental fund assets.

General Fund: Fund balance at June 30, 2011 was \$5,459,728, including \$5,441,452 of unassigned balance. Fund balance decreased \$599,855 from 2010. The primary reason for the decrease in the fund balance was due to an increase in expenditures (due to increase in compensated absences) and transfers out.

Head Start Fund: Fund balance at June 30, 2011 was \$743,143. The fund balance increased \$122,190 from 2010 to 2011. The primary reason for the increase in fund balance was mainly due to the decrease in expenditures.

Title VI-B Special Education Fund: Fund balance at June 30, 2011 was (\$202,933). The fund balance decreased \$87,599 from 2010 to 2011. The primary reason for the decrease in fund balance was mainly due to a decrease in intergovernmental revenue (grant monies received.)

General Fund Budgeting Highlights

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

The Center uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the Center revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget final basis revenue was \$31,136,567, compared to the original budget estimates of \$31,273,684. Of the \$137,117 difference, most was due to overestimates for contract services and intergovernmental revenues for fiscal year 2011.

**Hamilton County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2011, the Center had \$2,596,688 invested in land, buildings and improvements and equipment. Table 4 shows fiscal 2011 balances compared to 2010:

**Table 4
Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2011	2010
Land	\$1,398,750	\$1,398,750
Buildings and Improvements	812,428	836,059
Equipment	385,510	825,581
Total Net Capital Assets	<u>\$2,596,688</u>	<u>\$3,060,390</u>

Overall, capital assets decreased due to depreciation expense being greater than current asset additions.

See Note 5 to the Basic Financial Statements for further details on the Center's capital assets.

Debt

At June 30, 2011, the Center had \$2,181,000 in debt outstanding, \$45,000 due within one year.

Table 5 summarizes debt outstanding.

**Table 5
Outstanding Debt, at Year-End**

	Governmental Activities	
	2011	2010
HCESC Building Capital Lease	\$2,181,000	\$2,224,000

See Note 6 and 7 to the Basic Financial Statements for further details in the Center's long-term liabilities.

For the Future

As the preceding shows, the Center relies heavily on contracts with local, city, and exempted village school districts in Hamilton County, state foundation revenue and grants. Contracts with Hamilton County districts are expected to increase in future years due to additional service requests from districts. These contracts, along with the Center's cash balance will provide the Center with the necessary funds to meet its operating expenses in future years.

**Hamilton County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

As of the time of this report, the Ohio Department of Education is researching a model for a regional delivery system and the implementation of such a system. This new Ohio Regional Delivery System will directly affect the Centers and the method to which they are funded. At this point, the Center is unable to determine what effect this legislation will have on future state funding and on its financial operations.

In May 2000, the Ohio Supreme Court again ruled the school funding system in Ohio is far too dependent on property taxes which are inherently not "equitable" nor "adequate." The court directed the Governor and the legislature to address the fundamental issues creating the inequities. Any change in the funding will indirectly affect the Center's since the districts are their main revenue stream. Currently, the Center is unable to determine the outcome of the Court's directive.

All of the Center's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality products and services to the districts in the future.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer/Chief Financial Officer at 11083 Hamilton Avenue, Cincinnati, Ohio 45231.

Hamilton County Educational Service Center
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$12,437,721
Receivables:	
Accounts	1,506,594
Interest	18,746
Intergovernmental	2,200,476
Inventory	5,335
Nondepreciable Capital Assets	1,398,750
Depreciable Capital Assets, Net	<u>1,197,938</u>
 Total Assets	 <u>18,765,560</u>
 Liabilities:	
Accounts Payable	210,831
Accrued Wages and Benefits	4,365,106
Accrued Interest Payable	8,342
Long-Term Liabilities:	
Due Within One Year	461,258
Due In More Than One Year	<u>6,527,332</u>
 Total Liabilities	 <u>11,572,869</u>
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	415,688
Restricted for:	
State Grants	448,783
Federal Grants	1,774,582
Other Purposes	554,764
Unrestricted	<u>3,998,874</u>
 Total Net Assets	 <u>\$7,192,691</u>

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$19,187	\$0	\$0	(\$19,187)
Special	7,990,320	6,902,457	121,031	(966,832)
Vocational	65,373	61,702	0	(3,671)
Support Services:				
Pupil	7,657,391	6,781,478	79,447	(796,466)
Instructional Staff	7,749,796	4,641,680	2,516,952	(591,164)
General Administration	79,348	35,585	0	(43,763)
School Administration	4,377,049	2,620,881	673,167	(1,083,001)
Fiscal	927,801	649,885	237,328	(40,588)
Business	414,670	366,781	0	(47,889)
Operations and Maintenance	497,431	321,043	149,186	(27,202)
Central	700,574	582,750	0	(117,824)
Operation of Non-Instructional Services	11,493,275	5,656,947	4,624,927	(1,211,401)
Interest and Fiscal Charges	105,798	0	0	(105,798)
Total Governmental Activities	<u>\$42,078,013</u>	<u>\$28,621,189</u>	<u>\$8,402,038</u>	<u>(5,054,786)</u>
		General Revenues:		
		Grants and Entitlements not Restricted to Specific Programs		3,826,074
		Unrestricted Contributions		2,500
		Investment Earnings		76,640
		Other Revenues		97,677
		Total General Revenues		<u>4,002,891</u>
		Change in Net Assets		(1,051,895)
		Net Assets Beginning of Year		<u>8,244,586</u>
		Net Assets End of Year		<u>\$7,192,691</u>

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2011

	General	Head Start	Title VI-B Special Education	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	\$8,356,684	\$528,857	\$476,380	\$3,075,800	\$12,437,721
Receivables:					
Accounts	1,506,594	0	0	0	1,506,594
Interest	18,746	0	0	0	18,746
Intergovernmental	0	1,353,972	643,954	202,550	2,200,476
Interfund	834,413	0	0	0	834,413
Inventory	5,335	0	0	0	5,335
Total Assets	10,721,772	1,882,829	1,120,334	3,278,350	17,003,285
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	134,821	17,872	15,875	42,263	210,831
Accrued Wages and Benefits	3,892,661	284,271	142,444	45,730	4,365,106
Compensated Absences	1,019,224	1,019	0	0	1,020,243
Interfund Payable	0	113,970	520,994	199,449	834,413
Deferred Revenue	215,338	722,554	643,954	173,603	1,755,449
Total Liabilities	5,262,044	1,139,686	1,323,267	461,045	8,186,042
Fund Balances:					
Nonspendable	5,335	0	0	0	5,335
Restricted	0	743,143	0	1,242,422	1,985,565
Assigned	12,941	0	0	1,600,000	1,612,941
Unassigned	5,441,452	0	(202,933)	(25,117)	5,213,402
Total Fund Balances	5,459,728	743,143	(202,933)	2,817,305	8,817,243
Total Liabilities and Fund Balances	\$10,721,772	\$1,882,829	\$1,120,334	\$3,278,350	\$17,003,285

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2011

Total Governmental Fund Balance		\$8,817,243
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,596,688
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Interest	9,699	
Intergovernmental	1,540,111	
Other	<u>205,639</u>	
		1,755,449
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(8,342)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences		(3,787,347)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(2,181,000)</u>
Net Assets of Governmental Activities		<u>\$7,192,691</u>

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	Head Start	Title VI-B Special Education	Other Governmental Funds	Total Governmental Funds
Revenues:					
Tuition and Fees	\$1,755,737	\$0	\$0	\$0	\$1,755,737
Investment Earnings	76,265	0	0	0	76,265
Intergovernmental	3,826,074	4,834,466	1,707,312	1,812,765	12,180,617
Charges for Services	0	0	0	972,557	972,557
Contract Services	26,022,854	0	0	0	26,022,854
Other Revenues	72,316	0	0	27,861	100,177
Total Revenues	31,753,246	4,834,466	1,707,312	2,813,183	41,108,207
Expenditures:					
Current:					
Instruction:					
Special	7,644,331	0	0	93,871	7,738,202
Vocational	68,828	0	0	0	68,828
Support Services:					
Pupil	7,630,897	0	0	76,236	7,707,133
Instructional Staff	5,043,770	0	1,493,588	1,126,314	7,663,672
General Administration	39,453	0	0	0	39,453
School Administration	3,038,628	328,321	11,925	946,870	4,325,744
Fiscal	696,440	1,466	147,128	80,339	925,373
Business	409,218	0	0	0	409,218
Operations and Maintenance	368,510	0	112,686	11,400	492,596
Central	664,018	0	29,187	9,300	702,505
Operation of Non-Instructional Services	6,300,045	4,382,489	397	365,543	11,048,474
Debt Service:					
Principal Retirement	43,000	0	0	0	43,000
Interest and Fiscal Charges	105,963	0	0	0	105,963
Total Expenditures	32,053,101	4,712,276	1,794,911	2,709,873	41,270,161
Excess of Revenues Over (Under) Expenditures	(299,855)	122,190	(87,599)	103,310	(161,954)
Other Financing Sources (Uses):					
Transfers In	0	0	0	323,000	323,000
Transfers (Out)	(300,000)	0	0	(23,000)	(323,000)
Total Other Financing Sources (Uses)	(300,000)	0	0	300,000	0
Net Change in Fund Balance	(599,855)	122,190	(87,599)	403,310	(161,954)
Fund Balance Beginning of Year, restated	6,059,583	620,953	(115,334)	2,413,995	8,979,197
Fund Balance End of Year	\$5,459,728	\$743,143	(\$202,933)	\$2,817,305	\$8,817,243

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balance - Total Governmental Funds (\$161,954)

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

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	\$55,514	
Depreciation Expense	<u>(113,785)</u>	(58,271)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss. (405,431)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Interest	375	
Intergovernmental	47,495	
Other	<u>(129,959)</u>	(82,089)

Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 43,000

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. 165

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	<u>(387,315)</u>	
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Change in Net Assets of Governmental Activities (\$1,051,895)

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Statement of Assets and Liabilities
Agency Fund
June 30, 2011

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	\$3,163,492
Receivables:	
Accounts	<u>190,597</u>
Total Assets	<u><u>3,354,089</u></u>
Liabilities:	
Accounts Payable	79,953
Other Liabilities	<u>3,274,136</u>
Total Liabilities	<u><u>\$3,354,089</u></u>

See accompanying notes to the basic financial statements.

**Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011**

Note 1 - Description of the Center

The Hamilton County Educational Service Center (the “Center”) serves the territories contained within the territorial limits of the local school districts that are not otherwise classified as city or exempted village school districts in Hamilton County, Ohio. The local districts consist of Finneytown whose territories consist of Springfield Township and a portion of the City of Cincinnati; Forest Hills consisting of Anderson Township including the Village of Newtown; Northwest consisting of all or parts of Colerain, Green and Springfield Townships, and portions of the Cities of Forest Park and North College Hill, and as well, a small portion of Fairfield Township in Butler County; Oak Hills which consists of all or parts of Delhi and Green Townships and a portion of the City of Cincinnati; Southwest which consists of Crosby, Harrison and Whitewater Townships including the City of Harrison, and as well, a small portion of Morgan Township in Butler county; Three Rivers consisting of Miami Township including the Villages of Addyston, Cleves and North Bend; and, Lockland consisting of the Villages of Arlington Heights and Lockland.

The Center's Governing Board is comprised of five members who are resident electors of the County School district. At the time of election or appointment, every effort is made to broadly represent the electorate of the school system. Historically, five of the seven local districts on a rotational basis have been represented on the Board. Frequently the Board communicates with members of the local-district boards to learn of their wishes regarding development of policy, services that are consistent with trends, and program developments related to the vocational joint venture for which the five board members serve as representative delegates. The Board has consistently been a participating member of the Ohio School Boards Association to which several members provide leadership.

In addition to the seven local districts in Hamilton County, city districts, namely, Cincinnati, Deer Park, Winton Woods, Loveland, Madeira, Mariemont, Mt. Healthy, North College Hill, Norwood, Princeton, Reading Community, St. Bernard-Elmwood Place, Sycamore Community, Wyoming, Mason and the Exempted Village District of Indian Hill as well as the Great Oaks Institute of Technology and Career Development have one or another types of cooperative service agreements with the County School system.

The Office of the Board is regularly referred to as the Center which is housed in a separate, modern facility in a complex known as Civic Center North. The Center serves as the central office for the Hamilton County Educational Service Center Superintendent of Schools and has staff of approximately 520 certificated and non-certificated support employees.

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

Reporting Entity

For financial reporting purposes the Center's financial statements include all funds of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the center. Potential component units were also considered for inclusion in the financial report. Component units are legally separate organizations for which the elected officials of a primary government are financially accountable. The Center would consider an organization to be a component unit if:

1. The Center appointed a voting majority of the organization's governing body and (a) was able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial burdens on the Center; or
2. The organization was fiscally dependent upon the Center; or
3. The nature of the relationship between the Center and the organization was such that the exclusion from the financial reporting entity would render the financial statements of the Center misleading.

The Center included no component units in the financial report.

The Center provides fiscal agent service to the Hamilton/Clermont Cooperative Association (H/CCA), 7615 Harrison Avenue, Cincinnati, Ohio 45231. H/CCA is one of 23 regional Information Technology Centers (ITC) established by the state of Ohio. H/CCA is a member of the Ohio Educational Computer Network. H/CCA provides data and Internet services for public and non-public schools in Greater Cincinnati Metropolitan Area. This includes collection and distribution of data for financial, student and media services. H/CCA also provides technical and networking service to affiliate schools.

The Site Director and his staff manages the day-to-day affairs of H/CCA. A Board of Directors composed of member school's superintendents approves the long term path for the site, as determined by the Site Director and an Executive Committee composed of five superintendents and two treasurers from member schools.

Note 2 - Summary of Significant Accounting Policies

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

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

Measurement Focus

Government-wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Center are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Center.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Center are grouped into the categories governmental and fiduciary.

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Center's major governmental funds:

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

Head Start Fund – The head start fund is used to account for all financial resources that are associated with the head start program.

Title VI-B Special Education – The Title VI-B special education fund is used to account for federal monies provided to support programs for students with disabilities.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's only fiduciary funds are Agency funds (data center and unified purchasing co-op) which accounts for assets and liabilities generated by the data center and the unified purchasing co-op.

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. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

Revenues – Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, included 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 year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On 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 year end: contract services, grants and interest.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. However, debt service expenditures, as well as any expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011**

Equity in Pooled Cash and Investments

To improve cash management, cash received by the Center is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as “Equity in Pooled Cash and Investments” on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Center has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2011 amounted to \$76,265 in the general fund.

For presentation on the financial statements, all investments and deposits are reported as “Equity in Pooled Cash and Investments”.

During the fiscal year, the Center held donated stock which is held at fair value. The fair value is based on quoted market prices.

Inventory

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis and are expended/expensed when used. Inventory in governmental funds consists of expendable supplies held for consumption.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$2,000. The Center 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 except land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10 - 50 years
Equipment	5 - 20 years

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

Compensated Absences

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability 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 vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

Compensated absences are recognized in governmental fund financial statements, when they are due. The related liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

The Center's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u> (261 day employees only)	<u>Non-Certificated</u> (261 day employees only)
Earned Monthly	Not Eligible	10-20 days depending on length of contract	10-20 days for each service year depending on length of service
Maximum Accumulation	N/A	3 days paid at end of each school year at current Daily Rate	3 days paid at end of each school year at current Daily Rate
Vested	N/A	As Earned	As Earned
Term	N/A	100% of Daily Rate of Accum. Vac.	100% of Daily Rate of Accum. Vac.
<u>Sick Leave</u>			
Earned Monthly	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per/month of employment (15 days per year)
Maximum Accumulation	250	250	250
Vested	As Earned	As Earned	As Earned

**Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011**

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
Termination Entitlement At Retirement	25% of Accum. unused sick leave max 62.5 days X current daily rate.	25% of Accum. unused sick leave max 62.5 days X current daily rate.	25% of Accum. unused sick leave max 62.5 days X current daily rate.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of related debt, consists of capital assets, net of accumulated depreciation less outstanding debt used to acquire capital assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the Center’s \$2,778,129 in restricted net assets, none were restricted by enabling legislation.

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. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

Fund Balance

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

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

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

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

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

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

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

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

Estimates

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

Note 3 - Equity in Pooled Cash and Investments

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the Center into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the Center. Such monies must by law be maintained either as cash in the Center treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys 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 Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. 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.

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2011, \$10,622,428 of the Center's bank balance of \$11,103,636 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

As of June 30, 2011, the Center had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Stocks*	\$61,816	0.00
Money Market Funds	470,370	0.00
U.S. Treasury Notes	705,495	2.11
Federal Home Loan Bank	962,365	1.49
Federal Home Loan Mortgage Corporation	1,595,688	2.05
Federal Home Loan Mortgage - Discount Note	329,450	0.92
Federal National Mortgage Association	937,927	1.84
	<u>\$5,063,111</u>	
Portfolio Weighted Average Maturity		1.62

* The amount of \$61,816 was donated stock by a private individual.

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

Interest Rate Risk - In accordance with the investment policy, the Center manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the Center’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The Center’s investments in Money Market Funds, Federal Home Loan Bank, Federal Home Loan Mortgage – Discount Note, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association were rated AAA by Standard & Poor’s and Fitch Ratings and Aaa by Moody’s Investors Service. U.S. Treasury Notes are not rated.

Concentration of Credit Risk – The Center places no limit on the amount it may invest in any one issuer. 1% of the Center’s investments at fiscal year end were in Stock, 9% in Money Market Funds, 19% in Federal Home Loan Bank, 7% in Federal Home Loan Mortgage – Discount Note, 32% in Federal Home Loan Mortgage Corporation, 19% in Federal National Mortgage Association, and 13% in U.S. Treasury Notes.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Center’s securities are either insured and registered in the name of the Center or at least registered in the name of the Center.

Note 4 – Receivables

Receivables at June 30, 2011, consisted of accounts, interest, intergovernmental grants and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

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Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

Note 5 - Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$1,398,750	\$0	\$0	\$1,398,750
<i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	942,250	0	0	942,250
Equipment	1,697,940	55,514	95,586	1,657,868
Other	<u>1,068,567</u>	<u>0</u>	<u>1,068,567</u>	<u>0</u>
Totals at Historical Cost	<u>5,107,507</u>	<u>55,514</u>	<u>1,164,153</u>	<u>3,998,868</u>
Less Accumulated Depreciation:				
Buildings and Improvements	106,191	23,631	0	129,822
Equipment	1,277,790	90,154	95,586	1,272,358
Other	<u>663,136</u>	<u>0</u>	<u>663,136</u>	<u>0</u>
Total Accumulated Depreciation	<u>2,047,117</u>	<u>113,785</u>	<u>758,722</u>	<u>1,402,180</u>
Governmental Activities Capital Assets, Net	<u>\$3,060,390</u>	<u>(\$58,271)</u>	<u>\$405,431</u>	<u>\$2,596,688</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$19,187
Special	3,260
Support Services:	
Instructional Staff	11,982
General Administration	39,895
School Administration	24,063
Business	307
Operations and Maintenance	1,279
Central	1,033
Operation of Non-Instructional Services	<u>12,779</u>
Total Depreciation Expense	<u>\$113,785</u>

**Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011**

Note 6 - Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
Governmental Activities:					
Capital Lease Payable:					
HCESC Building	\$2,224,000	\$0	\$43,000	\$2,181,000	\$45,000
Total Long-Term Debt	<u>2,224,000</u>	<u>0</u>	<u>43,000</u>	<u>2,181,000</u>	<u>45,000</u>
Compensated Absences	<u>3,400,032</u>	<u>1,502,238</u>	<u>94,680</u>	<u>4,807,590</u>	<u>416,258</u>
Total Governmental Activities					
Long-Term Liabilities	<u><u>\$5,624,032</u></u>	<u><u>\$1,502,238</u></u>	<u><u>\$137,680</u></u>	<u><u>\$6,988,590</u></u>	<u><u>\$461,258</u></u>

Compensated Absences will be paid from the fund from which the person is paid. The lease will be paid from the general fund.

Note 7 - Capital Leases

The Center is leasing its administrative building from the Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the building during the lease term. Columbus Regional Airport Authority assigned U.S. Bank National Association as trustee. U.S. Bank National Association deposited \$2,341,000 in the Center's name for the purchase of the building. The lease is renewable annually and expires in 2036. The intention of the Center is to renew the lease annually.

The Center began making principal payments in fiscal year 2008. The principal amount owed on the lease at year end is \$2,181,000.

The trustee entered into an Interest Rate Exchange Agreement with respect to the lease, locking in the rate at 4.59% plus an annual administrative fee. The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2011.

**Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011**

Fiscal Year Ending June 30,	Long-Term Debt
2012	\$147,323
2013	147,142
2014	146,867
2015	146,497
2016	147,008
2017-2021	730,535
2022-2026	728,761
2027-2031	726,446
2032-2036	721,436
2037	143,318
Total Minimum Lease Payments	3,785,333
Less: Amount Representing Interest	(1,553,415)
Less: Additional Program Cost Component	(50,918)
Present Value of Minimum Lease Payments	<u>\$2,181,000</u>

Note 8 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and Center is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Center's contributions to SERS for the years ended June 30, 2011, 2010, and 2009 were \$1,977,120, \$2,109,654, and \$2,284,733, respectively; 85% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

State Teachers Retirement System of Ohio

Plan Description

The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits

Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits

Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2011, were 10% of covered payroll for members and 14% for employers. The Center's contributions to STRS for the years ended June 30, 2011, 2010, and 2009 were \$4,786,028, \$4,634,525, and \$4,682,235, respectively; 94% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

Note 9- Post Employment Benefits

School Employees Retirement System of Ohio

Plan Description

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation was .76%. Center contributions for the years ended June 30, 2011, 2010 and 2009 were \$107,329, \$114,524 and \$122,396, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, 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.

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2011, the health care allocation was 1.43%. 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% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Center contributions assigned to health care for the years ended June 30, 2011, 2010, and 2009 were \$201,949, \$69,317, and \$678,892, respectively; 85% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

The SERS 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 financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

State Teachers Retirement System of Ohio

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

**Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011**

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2011, 2010 and 2009. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2011, 2010, and 2009 were \$341,859, \$331,038, and \$334,445, respectively; 94% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

Note 10 - Contingent Liabilities

Grants

The Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center as of June 30, 2011.

Litigation

The Center's attorney estimates that all other potential claims against the Center not covered by insurance resulting from all other litigation would not materially affect the financial statements of the Center.

Note 11 - Risk Management

The Center is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Center carries insurance coverage with the following companies.

<u>COVERAGE</u>	<u>COMPANY</u>
Automobile	The Argonaut Insurance Company
Property	The Argonaut Insurance Company
General Liability	The Argonaut Insurance Company

Limits and deductible amounts for the above policies vary accordingly.

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

<u>COVERAGE</u>	<u>LIMITS</u>	<u>DEDUCTIBLE</u>
Automobile	\$1,000,000 each occurrence	\$500 collision
Property	\$1,000,000 each occurrence	\$500 each loss
General Liability	\$1,000,000 each occurrence \$2,000,000 general aggregate	

The Center pays the State of Ohio Bureau of Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

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

Note 12 - State Funding

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

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of average daily memberships of all of the school districts served by the Center by \$33. This amount is provided from State resources.

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

Note 13 – Accountability

The following individual funds had a deficit in fund balance at year end:

	<u>Deficit</u>
Title VI-B Special Education	\$202,933
Other Governmental Funds:	
Data Communication	10,093
IDEA Preschool Grant	15,024

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

The deficits in fund balances were primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

Note 14 - Interfund Transactions

Interfund transactions at June 30, 2011, consisted of the following interfund receivables, interfund payables, transfers in, and transfers out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$834,413	\$0	\$0	\$300,000
Head Start Fund	0	113,970	0	0
Title VI-B Special Education	0	520,994	0	0
Other Governmental Funds	0	199,449	323,000	23,000
Total All Funds	\$834,413	\$834,413	\$323,000	\$323,000

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

Note 15 - Jointly Governed Organization

Hamilton/Clermont Cooperative Association

The Hamilton/Clermont Cooperative Association (HCCA) is a governmental jointly governed organization consisting of 31 school districts. 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. Each of the governments of these schools support HCCA and shares in a percentage of equity based on the resources provided. HCCA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating School District is limited to its representation on the Board. The Board consists of one representative from each of the participating 31 school districts.

Unified Purchasing Cooperative

The Unified Purchasing Cooperative is comprised of over 50 public school district's and nearly 90 non-public schools in Brown, Butler, Clermont, Hamilton (OH); Boone, Campbell, Kenton (KY); Dearborn, Ohio, Ripley (IN) counties; 4 Educational Service Centers, 2 Head Start Programs, 2 MRDD's and the Diocese of Covington.

**Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011**

By aggregating the requirements of its members, each member's purchasing power increases and as a result Unified Purchasing Cooperative is able to obtain the best prices for quality products and services.

Note 16 - Claims Servicing Pool

The Center participates in Greater Cincinnati Insurance Consortium (GCIC) Self-Insurance Program, a shared risk pool, comprised of other area school districts. Each member pays an administrative fee to the pool. Each school district has a representative on the assembly (usually the superintendent or designee).

Note 17 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Center is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

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Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

<u>Fund Balances</u>	<u>General</u>	<u>Head Start</u>	<u>Title VI-B Special Education</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:					
Inventory	\$5,335	\$0	\$0	\$0	\$5,335
Total Nonspendable	5,335	0	0	0	5,335
Restricted for:					
Head Start Program	0	743,143	0	0	743,143
Local Grants	0	0	0	558,488	558,488
Data Communication	0	0	0	275	275
Education Management Information Systems	0	0	0	1,200	1,200
Miscellaneous State Grants	0	0	0	390,104	390,104
Title I Disadvantaged Children	0	0	0	25,929	25,929
Improving Teacher Quality	0	0	0	6,013	6,013
Miscellaneous Federal Grants	0	0	0	260,413	260,413
Total Restricted	0	743,143	0	1,242,422	1,985,565
Assigned to:					
Capital Projects	0	0	0	1,300,000	1,300,000
Permanent Improvements	0	0	0	300,000	300,000
Encumbrances	12,941	0	0	0	12,941
Total Assigned	12,941	0	0	1,600,000	1,612,941
Unassigned (Deficit)	5,441,452	0	(202,933)	(25,117)	5,213,402
Total Fund Balance	\$5,459,728	\$743,143	(\$202,933)	\$2,817,305	\$8,817,243

Note 18 – Change in Accounting Principles and Restatement of Fund Balance

Change in Accounting Principles

For fiscal year 2011, the Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” GASB 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting to the extent to which the Center is bound to honor constraints on the specific purposes for which amounts in funds can be spent.

Hamilton County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2011

Restatement of Fund Balance

The implementation of GASB 54 had the following effects on fund balance of the following major and non-major (other governmental) funds of the Center as they were previously reported.

	General Fund	Other Governmental Funds
	<u> </u>	<u> </u>
Fund Balance, June 30, 2010	\$5,759,583	\$2,713,995
Change in Fund Structure	<u>300,000</u>	<u>(300,000)</u>
Fund Balance, June 30, 2010 - Restated	<u><u>\$6,059,583</u></u>	<u><u>\$2,413,995</u></u>

Hamilton County Educational Service Center
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2011

	General Fund			Variance from Final Budget
	Original Budget	Final Budget	Actual	
Revenues:				
Tuition and Fees	\$1,763,469	\$1,755,737	\$1,755,737	\$0
Investment Earnings	89,121	88,730	88,730	0
Intergovernmental	3,842,923	3,826,074	3,826,074	0
Contract Services	25,505,537	25,393,710	25,393,712	2
Other Revenues	72,634	72,316	72,316	0
Total Revenues	31,273,684	31,136,567	31,136,569	2
Expenditures:				
Current:				
Instruction:				
Special	7,614,561	7,701,608	7,701,608	0
Vocational	69,818	70,616	70,616	0
Support Services:				
Pupil	7,677,491	7,765,257	7,765,257	0
Instructional Staff	4,815,692	4,870,743	4,870,743	0
General Administration	39,881	40,337	40,337	0
School Administration	1,879,403	1,900,888	1,900,888	0
Fiscal	709,667	717,780	717,780	0
Business	412,073	416,784	416,784	0
Operations and Maintenance	361,703	365,838	365,838	0
Central	649,874	657,303	657,303	0
Operation of Non-Instructional Services	6,355,972	6,428,631	6,428,631	0
Debt Service:				
Principal Retirement	43,000	43,000	43,000	0
Interest and Fiscal Charges	104,278	105,962	105,962	0
Total Expenditures	30,733,413	31,084,747	31,084,747	0
Excess of Revenues Over (Under) Expenditures	540,271	51,820	51,822	2
Other Financing Sources (Uses):				
Advances In	1,373,702	1,367,679	1,367,679	0
Advances (Out)	(296,609)	(300,000)	(300,000)	0
Transfers (Out)	(868,935)	(878,868)	(878,868)	0
Total Other Financing Sources (Uses)	208,158	188,811	188,811	0
Net Change in Fund Balance	748,429	240,631	240,633	2
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	7,659,367	7,659,367	7,659,367	0
Fund Balance End of Year	\$8,407,796	\$7,899,998	\$7,900,000	\$2

See accompanying notes to the supplementary information.

Hamilton County Educational Service Center
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2011

	Title VI-B Special Education Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	\$1,718,475	\$1,707,312	\$1,707,312	\$0
Total Revenues	<u>1,718,475</u>	<u>1,707,312</u>	<u>1,707,312</u>	<u>0</u>
Expenditures:				
Current:				
Support Services:				
Instructional Staff	1,993,273	1,981,251	1,981,249	2
School Administration	12,195	12,121	12,121	0
Fiscal	148,021	147,128	147,128	0
Operations and Maintenance	115,831	115,132	115,132	0
Central	29,544	29,366	29,366	0
Operation of Non-Instructional Services	<u>7,895</u>	<u>7,847</u>	<u>7,847</u>	<u>0</u>
Total Expenditures	<u>2,306,759</u>	<u>2,292,845</u>	<u>2,292,843</u>	<u>2</u>
Excess of Revenues Over (Under) Expenditures	<u>(588,284)</u>	<u>(585,533)</u>	<u>(585,531)</u>	<u>2</u>
Other Financing Sources (Uses):				
Advances In	524,401	520,994	520,994	0
Advances (Out)	<u>(108,731)</u>	<u>(108,075)</u>	<u>(108,075)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>415,670</u>	<u>412,919</u>	<u>412,919</u>	<u>0</u>
Net Change in Fund Balance	(172,614)	(172,614)	(172,612)	2
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	<u>172,614</u>	<u>172,614</u>	<u>172,614</u>	<u>0</u>
Fund Balance End of Year	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$2</u></u>	<u><u>\$2</u></u>

See accompanying notes to the supplementary information.

Hamilton County Educational Service Center
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2011

	Head Start Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	\$5,020,969	\$5,284,851	\$5,284,851	\$0
Total Revenues	5,020,969	5,284,851	5,284,851	0
Expenditures:				
Current:				
Support Services:				
School Administration	142,461	375,886	375,886	0
Fiscal	833	2,199	2,199	0
Operation of Non-Instructional Services	1,874,963	4,947,126	4,947,126	0
Total Expenditures	2,018,257	5,325,211	5,325,211	0
Excess of Revenues Over (Under) Expenditures	3,002,712	(40,360)	(40,360)	0
Other Financing Sources (Uses):				
Advances In	108,279	113,970	113,970	0
Advances (Out)	(276,988)	(730,837)	(730,837)	0
Total Other Financing Sources (Uses)	(168,709)	(616,867)	(616,867)	0
Net Change in Fund Balance	2,834,003	(657,227)	(657,227)	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	660,613	660,613	660,613	0
Fund Balance End of Year	\$3,494,616	\$3,386	\$3,386	\$0

See accompanying notes to the supplementary information.

Hamilton County Educational Service Center
Notes to the Supplementary Information
For The Fiscal Year Ended June, 30, 2011

Note 1 – Budgetary Process

The Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education. However, the Center's Board approves a budget for governmental funds on or before the start of the new fiscal year, which includes estimated resources and expenditures.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Center's Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2011.

While the Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis) presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as assigned to a fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

Hamilton County Educational Service Center
Notes to the Supplementary Information
For The Fiscal Year Ended June, 30, 2011

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund, Head Start Fund, and Title VI-B Special Education Fund:

Net Change in Fund Balance

	<u>General</u>	<u>Head Start</u>	<u>Title VI-B Special Education</u>
GAAP Basis	(\$599,855)	\$122,190	(\$87,599)
Revenue Accruals	(616,677)	450,385	0
Expenditure Accruals	989,522	(87,464)	(21,554)
Transfers Out	(578,868)	0	0
Advances In	1,367,679	113,970	520,994
Advances Out	(300,000)	(730,837)	(108,075)
Encumbrances	(21,168)	(525,471)	(476,378)
Budget Basis	<u>\$240,633</u>	<u>(\$657,227)</u>	<u>(\$172,612)</u>

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Child & Adult Care Food Program	n/a	10.558	\$ <u>303,291</u>	<u>304,581</u>
Total U.S. Department of Agriculture			<u>303,291</u>	<u>304,581</u>
<u>U.S. Department of Education:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Title I Cluster:				
Title I Grants to Local Educational Agencies	C1	84.010	170,120	148,904
ARRA - Title I Grants to Local Educational Agencies	C1	84.389	<u>55,962</u>	<u>52,410</u>
Total Title I Cluster:			<u>226,082</u>	<u>201,314</u>
Safe and Drug-Free Schools and Communities - State Grants	DR	84.186	2,252	-
21st Century Community Learning Centers	T1	84.287	9,752	9,802
Special Education- State Personnel Development	ST	84.323	51,325	78,631
English Language Acquisition Grants	T3	84.365	77,859	99,194
Improving Teacher Quality State Grants	TR	84.367	366,112	374,576
Teaching American History Grant	n/a	84.215	301,207	310,339
Special Education Cluster:				
Special Education - Grants to States	6B	84.027	1,707,312	1,816,467
Special Education - Preschool Grants	PG	84.173	68,326	88,324
ARRA - Special Education - Preschool Grants	PG	84.392	<u>24,419</u>	<u>13,031</u>
Total Special Education Cluster			<u>1,800,057</u>	<u>1,917,822</u>
Total U.S. Department of Education			<u>2,834,646</u>	<u>2,991,678</u>
<u>U.S. Department of Health & Human Services:</u>				
<i>(Passed through Cincinnati-Hamilton Co. Community Action Agency)</i>				
Head Start Cluster:				
Head Start	09-78	93.600	4,649,112	4,323,878
ARRA - Head Start	08-69-A	93.708	327,195	170,320
ARRA - Early Head Start	08-69-A	93.709	<u>5,251</u>	<u>959</u>
Total U.S. Department of Health & Human Services			<u>4,981,558</u>	<u>4,495,157</u>
Total Federal Awards			<u>\$ 8,119,495</u>	<u>7,791,416</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is a summary of the activity of the Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Governing Board of
Hamilton County Educational Service Center:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County Educational Service Center ("Service Center") as of and for the year ended June 30, 2011, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated December 9, 2011 wherein we noted the Service Center adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Service Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Service Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Service Center, in a separate letter dated December 9, 2011.

This report is intended solely for the information and use of the Governing Board, management, others within the entity and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
December 9, 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Governing Board of
Hamilton County Educational Service Center:

Compliance

We have audited the Hamilton County Educational Service Center's ("Service Center") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Service Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Service Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Service Center'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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Governing Board, management, others within the organization and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
December 9, 2011

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2011

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued :	unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Noncompliance material to financial statements noted?	none

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133? none

Identification of major programs:

Title I Cluster:

- CFDA 84.010 – Title I Grants to Local Educational Agencies*
- CFDA 84.389 – Title I Grants to Local Educational Agencies – ARRA*

Special Education Cluster:

- CFDA 84.027 – Special Education – Grants to States*
- CFDA 84.173 – Special Education – Preschool Grants*
- CFDA 84.392 – Special Education – Preschools Grants – ARRA*

CFDA 84.215 - Teaching American History Grant

Dollar threshold to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? yes

Section II - Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Summary of Prior Audit Findings and Questioned Costs

None

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Dave Yost • Auditor of State

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER

HAMILTON 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
JANUARY 26, 2012