



**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

Governing Board
Mahoning County Educational Service Center
100 DeBartolo Place
Suite 170
Youngstown, Ohio 44512

We have reviewed the *Independent Accountants'* Report of the Mahoning County Educational Service Center, Mahoning County, prepared by Canter & Associates, 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 Mahoning County Educational Service Center is responsible for compliance with these laws and regulations.

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Dave Yost
Auditor of State

April 23, 2012

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY**

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standard*. 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 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Mahoning County Educational Service Center, Mahoning County, Ohio, 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 3, Mahoning County Educational Service Center restated its July 1, 2010 governmental fund balances due to changes in fund structure as a result of implementing the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2012 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, be presented to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

For the budgetary comparison information and notes on pages 45 through 48, we have applied certain limited procedures, which consisted principally of inquires 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.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The federal awards receipt and expenditure schedule provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The federal awards receipt and expenditure schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements as a whole.

CANTER & ASSOCIATES

A handwritten signature in blue ink that reads "Canter & Assoc" with a stylized flourish at the end.

Poland, Ohio

February 15, 2012

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

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

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

Financial Highlights

Key financial highlights for fiscal year 2011 are as follows:

- In total, net assets of governmental activities increased \$93,557 which represents a 2.37% increase from 2010.
- General revenues accounted for \$2,099,775 in revenue or 8.86% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$21,587,359 or 91.14% of total revenues of \$23,687,134.
- The ESC had \$23,593,577 in expenses related to governmental activities; \$21,587,359 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$2,099,775 were adequate to provide for these programs.
- The ESC's major governmental funds are the general fund and miscellaneous federal grants fund. The general fund had \$17,066,525 in revenues and \$18,188,388 in expenditures and other financing uses. During fiscal year 2011, the general fund's fund balance decreased from a restated balance of \$1,287,398 to \$165,535.
- The miscellaneous federal grants fund had \$1,911,593 in revenues and \$1,735,925 in expenditures. During fiscal year 2011, the miscellaneous federal grant fund's deficit fund balance decreased from a deficit of \$184,121 to a deficit of \$8,453.

Using these Basic Financial Statements

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

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

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

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

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

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

The ESC's statement of net assets and statement of activities can be found on pages 12-13 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental funds begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the general fund and the miscellaneous federal grants fund.

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 14-17 of this report.

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MAHONING COUNTY, OHIO**

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

Reporting the ESC's Fiduciary Responsibilities

The ESC acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary net assets on page 18. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 19-44 of this report.

Supplementary Information

The ESC has presented budgetary comparison schedules for the general fund and miscellaneous federal grants fund as supplementary information on pages 45-48 of this report.

The ESC as a Whole

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

The table below provides a summary of the ESC's net assets at June 30, 2011 and June 30, 2010.

	Net Assets	
	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Assets</u>		
Current and other assets	\$ 6,776,198	\$ 6,261,717
Capital assets	<u>270,142</u>	<u>392,467</u>
Total assets	<u>7,046,340</u>	<u>6,654,184</u>
<u>Liabilities</u>		
Current liabilities	2,266,678	2,157,559
Long-term liabilities	<u>734,734</u>	<u>545,254</u>
Total liabilities	<u>3,001,412</u>	<u>2,702,813</u>
<u>Net assets</u>		
Invested in capital assets	270,142	392,467
Restricted	1,768,484	1,474,364
Unrestricted	<u>2,006,302</u>	<u>2,084,540</u>
Total net assets	<u>\$ 4,044,928</u>	<u>\$ 3,951,371</u>

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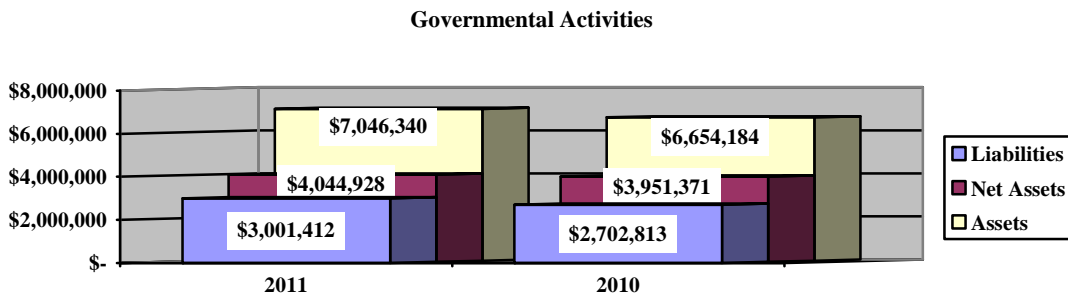
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the ESC's assets exceeded liabilities by \$4,044,928. Of this total, \$2,006,302 is unrestricted in use.

At June 30, 2011 and 2010, capital assets represented 3.83% and 5.90%, respectively, of total assets. Capital assets include land improvements, furniture and equipment and vehicles. Capital assets at June 30, 2011 and 2010 were \$270,142 and \$392,467, respectively. These capital assets are used to provide services to the students and are not available for future spending.

At June 30, 2011, a portion of the ESC's net assets, \$1,768,484, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets at June 30, 2011 of \$2,006,302 may be used to meet the ESC's ongoing obligations to the students and creditors.

The table below illustrates the ESC's assets, liabilities and net assets at June 30, 2011 and 2010.



The table below shows the change in net assets for fiscal years 2011 and 2010.

Change in Net Assets

	Governmental Activities 2011	Governmental Activities 2010
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 15,894,466	\$ 13,772,293
Operating grants and contributions	5,692,893	4,244,894
General revenues:		
Grants and entitlements	2,027,194	1,871,694
Investment earnings	24,880	106,499
Other	47,701	47,906
Total revenues	23,687,134	20,043,286

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

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

	Change in Net Assets (Continued)	
	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 1,964,251	\$ 1,733,752
Special	6,312,793	6,041,062
Vocational	63,547	62,209
Adult/continuing	792	792
Support services:		
Pupil	5,498,646	5,446,212
Instructional staff	6,523,782	5,645,271
Board of education	100,470	42,703
Administration	859,285	985,708
Fiscal	714,024	729,563
Business	313,728	316,826
Operations and maintenance	411,507	392,969
Pupil transportation	14,825	37,178
Central	654,773	1,094,699
Operation of non-instructional services	<u>161,154</u>	<u>187,718</u>
Total expenses	<u>23,593,577</u>	<u>22,716,662</u>
Change in net assets	93,557	(2,673,376)
Net assets at beginning of year	<u>3,951,371</u>	<u>6,624,747</u>
Net assets at end of year	<u>\$ 4,044,928</u>	<u>\$ 3,951,371</u>

Governmental Activities

Net assets of the ESC's governmental activities increased \$93,557. Total governmental expenses of \$23,593,577 were offset by program revenues of \$21,587,359 and general revenues of \$2,099,775. Program revenues supported 91.50% of the total governmental expenses.

Charges for services and sales revenues increased as a result of additional service requests from school districts the ESC serves. This also led to a corresponding increase in expenses. The increase in operating grants and contributions is due to additional federal grants received in 2011, especially those accounted for in the miscellaneous federal grants fund.

The primary sources of revenue for governmental activities are derived from charges for services and sales, and operating grants and contributions. These revenue sources represent 91.14% of total governmental revenue.

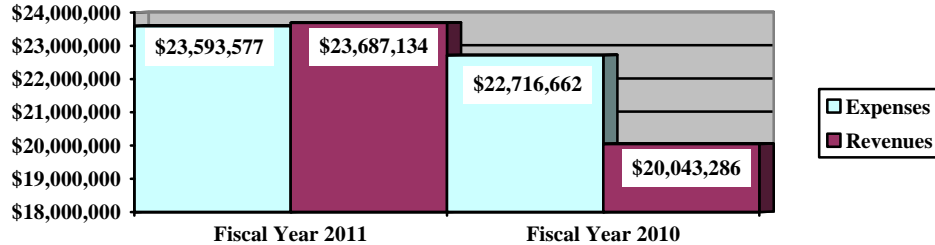
The largest expense of the ESC is for instructional programs. Instruction expenses totaled \$8,341,383 or 35.35% of total governmental expenses for fiscal year 2011.

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

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2011 and 2010.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$ 1,964,251	\$ 1,951,311	\$ 1,733,752	\$ 1,704,140
Special	6,312,793	(370,053)	6,041,062	213,866
Vocational	63,547	63,547	62,209	62,209
Adult/continuing	792	792	792	792
Support services:				
Pupil	5,498,646	(701,214)	5,446,212	632,484
Instructional staff	6,523,782	(246,418)	5,645,271	407,688
Board of education	100,470	85,720	42,703	21,703
Administration	859,285	(46,738)	985,708	96,895
Fiscal	714,024	(77,066)	729,563	76,847
Business	313,728	313,728	316,826	309,997
Operations and maintenance	411,507	231,542	392,969	248,090
Pupil transportation	14,825	(8,408)	37,178	20,115
Central	654,773	650,773	1,094,699	753,037
Operation of non-instructional services	<u>161,154</u>	<u>158,702</u>	<u>187,718</u>	<u>151,612</u>
Total expenses	<u>\$ 23,593,577</u>	<u>\$ 2,006,218</u>	<u>\$ 22,716,662</u>	<u>\$ 4,699,475</u>

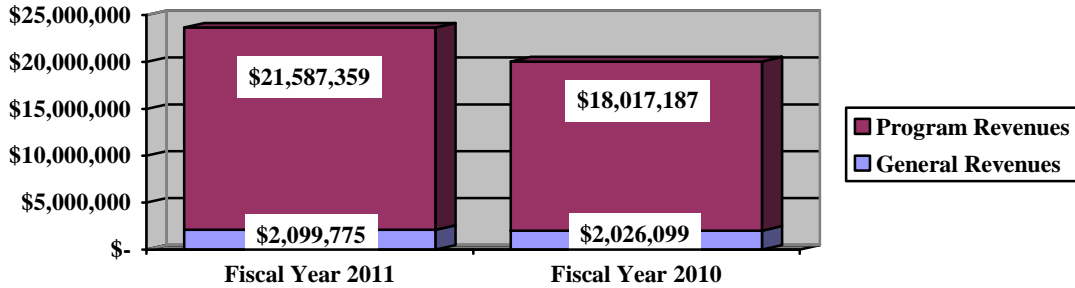
The dependence upon other general revenues for governmental activities is apparent; 19.73% of instruction activities are supported through other general revenues. For all governmental activities, general revenue support is 8.50%. The ESC's charges for services and sales and operating grants and contributions, as a whole, are the primary support for ESC's students.

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

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

The graph below presents the ESC's governmental activities revenue for fiscal years 2011 and 2010.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$1,173,119, which is lower than last year's total of \$2,263,419. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010. The ESC has restated fund balances at June 30, 2010 as described in Note 3.B.

	Fund Balance (Deficit) <u>June 30, 2011</u>	Restated Fund Balance (Deficit) <u>June 30, 2010</u>	Increase (Decrease)	Percentage Change
General	\$ 165,535	\$ 1,287,398	\$ (1,121,863)	(87.14) %
Miscellaneous federal grants	(8,453)	(184,121)	175,668	95.41 %
Other governmental	<u>1,016,037</u>	<u>1,160,142</u>	<u>(144,105)</u>	(12.42) %
Total	<u>\$ 1,173,119</u>	<u>\$ 2,263,419</u>	<u>\$ (1,090,300)</u>	(48.17) %

General Fund

The ESC's general fund balance decreased by \$1,121,863. The tables that follow assist in illustrating the financial activities and fund balance of the general fund.

	2011 <u>Amount</u>	2010 <u>Amount</u>	Increase (Decrease)	Percentage Change
Revenues				
Customer services	\$ 3,386,095	\$ 2,570,732	\$ 815,363	31.72 %
Tuition	11,604,081	11,027,364	576,717	5.23 %
Earnings on investments	19,830	151,774	(131,944)	(86.93) %
Intergovernmental	2,027,194	1,999,371	27,823	1.39 %
Other revenues	<u>29,325</u>	<u>41,241</u>	<u>(11,916)</u>	(28.89) %
Total	<u>\$ 17,066,525</u>	<u>\$ 15,790,482</u>	<u>\$ 1,276,043</u>	8.08 %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(SEE ACCOUNTANT'S COMPILATION REPORT)

	2011 <u>Amount</u>	2010 <u>Amount</u>	Increase (Decrease)	Percentage <u>Change</u>
<u>Expenditures</u>				
Instruction	\$ 8,036,094	\$ 7,498,892	\$ 537,202	7.16 %
Support services	9,877,217	9,496,174	381,043	4.01 %
Non-instructional services	<u>155,077</u>	<u>155,063</u>	<u>14</u>	0.01 %
Total	<u>\$ 18,068,388</u>	<u>\$ 17,150,129</u>	<u>\$ 918,259</u>	5.35 %

Both revenues and expenditures increased for the general fund in 2011. The ESC handled more requests for services from school districts, which led to increased customer services revenue, as well as increased expenditures. Tuition revenue increased as a result of additional instructional services requests from districts. Earnings on investments decreased due primarily to less funds held in interest-bearing accounts and lower interest rates.

Miscellaneous Federal Grants Fund

The miscellaneous federal grants fund is a major fund for the ESC and had \$1,911,593 in revenues and \$1,735,925 in expenditures. During fiscal year 2011, the miscellaneous federal grant fund's deficit fund balance decreased from a deficit of \$184,121 to a deficit of \$8,453.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the ESC had \$268,955 invested in land improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2011 balances compared to June 30, 2010:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	2011	2010
Land improvements	\$ 1,737	\$ 2,234
Furniture and equipment	263,303	381,729
Vehicles	<u>5,102</u>	<u>8,504</u>
Total	<u>\$ 270,142</u>	<u>\$ 392,467</u>

The overall decrease in capital assets of \$122,325 is due to depreciation expense of \$136,014 exceeding capital outlays of \$13,689 in the fiscal year.

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

Debt Administration

The ESC had no debt outstanding at June 30, 2011.

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

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

Current Financial Related Activities

The ESC relies heavily on contracts with local, city, parochial and community schools in Mahoning County, State foundation revenue, grants and the fiscal agency role we provide to several entities. Contracts with participating districts increased in fiscal year 2011 due to additional service requests. This increase is expected to taper off slightly in fiscal year 2012. The ESC's financial condition has remained stable. Through new contracts with locals, sponsorship capability and providing the fiscal and administrative role to several entities, the ESC will be able to provide the necessary funds to meet operating expenses in the future.

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

Contacting the ESC's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government	Component Unit
	Governmental Activities	The Unlimited Classroom
Assets:		
Equity in pooled cash and investments.	\$ 2,408,786	\$ 629,767
Receivables:		
Accounts.	463	-
Intergovernmental	4,335,298	100,271
Accrued interest	12,593	-
Materials and supplies inventory.	19,058	-
Capital assets:		
Depreciable capital assets, net.	270,142	156,498
Capital assets, net	270,142	156,498
 Total assets.	 7,046,340	 886,536
Liabilities:		
Accounts payable.	109,399	3,295
Accrued wages and benefits	1,777,594	-
Pension obligation payable.	292,529	-
Intergovernmental payable	87,156	102,456
Long-term liabilities:		
Due within one year.	250,504	-
Due in more than one year.	484,230	-
 Total liabilities	 3,001,412	 105,751
Net assets:		
Invested in capital assets	270,142	156,498
Restricted for:		
Capital projects	19,115	-
Locally funded programs	337,832	-
State funded programs.	131,931	7,000
Federally funded programs	1,264,106	106,554
Other purposes	15,500	-
Unrestricted.	2,006,302	510,733
 Total net assets	 \$ 4,044,928	 \$ 780,785

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services and Sales	Operating Grants and Contributions	Primary Governmental Activities	Component Unit
Governmental activities:					
Instruction:					
Regular	\$ 1,964,251	\$ -	\$ 12,940	\$ (1,951,311)	\$ -
Special	6,312,793	6,506,683	176,163	370,053	-
Vocational	63,547	-	-	(63,547)	-
Adult/continuing.	792	-	-	(792)	-
Support services:					
Pupil.	5,498,646	5,011,616	1,188,244	701,214	-
Instructional staff	6,523,782	3,079,934	3,690,266	246,418	-
Board of education	100,470	-	14,750	(85,720)	-
Administration.	859,285	709,868	196,155	46,738	-
Fiscal.	714,024	580,060	211,030	77,066	-
Business.	313,728	-	-	(313,728)	-
Operations and maintenance	411,507	5,441	174,524	(231,542)	-
Pupil transportation.	14,825	-	23,233	8,408	-
Central	654,773	-	4,000	(650,773)	-
Operation of non-instructional services	161,154	864	1,588	(158,702)	-
Total governmental activities	<u>\$ 23,593,577</u>	<u>\$ 15,894,466</u>	<u>\$ 5,692,893</u>	<u>(2,006,218)</u>	<u>-</u>
Component Unit:					
The Unlimited Classroom	<u>\$ 1,438,778</u>	<u>\$ 7,857</u>	<u>\$ 351,697</u>	<u>-</u>	<u>(1,079,224)</u>
General revenues:					
Grants and entitlements not restricted					
to specific programs					
				2,027,194	1,077,637
				24,880	955
				47,701	-
Total general revenues				<u>2,099,775</u>	<u>1,078,592</u>
Change in net assets				93,557	(632)
Net assets at beginning of year.				<u>3,951,371</u>	<u>781,417</u>
Net assets at end of year				<u>\$ 4,044,928</u>	<u>\$ 780,785</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 1,365,780	\$ -	\$ 1,043,006	\$ 2,408,786
Receivables:				
Accounts	-	-	463	463
Intergovernmental.	2,758,746	1,062,697	513,855	4,335,298
Accrued interest	12,593	-	-	12,593
Materials and supplies inventory.	19,058	-	-	19,058
Due from other funds	101,036	-	-	101,036
Loans to other funds	2,614	-	-	2,614
Total assets	<u>\$ 4,259,827</u>	<u>\$ 1,062,697</u>	<u>\$ 1,557,324</u>	<u>\$ 6,879,848</u>
Liabilities:				
Accounts payable	\$ 3,650	\$ 37,096	\$ 68,653	\$ 109,399
Accrued wages and benefits.	1,625,024	34,409	118,161	1,777,594
Compensated absences payable	62,956	-	-	62,956
Pension obligation payable	259,492	4,184	28,853	292,529
Intergovernmental payable	80,099	1,816	5,241	87,156
Due to other funds	-	77,850	23,186	101,036
Loans from other funds	-	-	2,614	2,614
Deferred revenue	2,063,071	915,795	294,579	3,273,445
Total liabilities	<u>4,094,292</u>	<u>1,071,150</u>	<u>541,287</u>	<u>5,706,729</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory	19,058	-	-	19,058
Long-term loans.	2,614	-	-	2,614
Restricted:				
Capital improvements	-	-	19,115	19,115
Special education	-	-	58,535	58,535
Targeted academic assistance	-	-	30,254	30,254
Other purposes.	-	-	530,968	530,968
Committed:				
Capital improvements	-	-	380,000	380,000
Unassigned (deficit)	143,863	(8,453)	(2,835)	132,575
Total fund balances (deficit)	<u>165,535</u>	<u>(8,453)</u>	<u>1,016,037</u>	<u>1,173,119</u>
Total liabilities and fund balances	<u>\$ 4,259,827</u>	<u>\$ 1,062,697</u>	<u>\$ 1,557,324</u>	<u>\$ 6,879,848</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

Total governmental fund balances		\$	1,173,119
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			270,142
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.			
Customer services receivable	\$	2,052,015	
Earnings on investments receivable		11,056	
Intergovernmental revenue receivable		1,210,374	
Total		<u>3,273,445</u>	3,273,445
Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.			<u>(671,778)</u>
Net assets of governmental activities		<u>\$</u>	<u>4,044,928</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<u>General</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition	\$ 11,604,081	\$ -	\$ 228,978	\$ 11,833,059
Earnings on investments	19,830	-	-	19,830
Customer services	3,386,095	-	-	3,386,095
Other local revenues	29,325	-	35,500	64,825
Intergovernmental - intermediate	-	-	118,745	118,745
Intergovernmental - state	1,882,357	-	645,979	2,528,336
Intergovernmental - federal	144,837	1,911,593	2,246,577	4,303,007
Total revenues	<u>17,066,525</u>	<u>1,911,593</u>	<u>3,275,779</u>	<u>22,253,897</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,926,095	-	14,783	1,940,878
Special	6,047,119	61,855	145,552	6,254,526
Vocational	62,880	-	-	62,880
Support services:				
Pupil	4,676,393	740,256	35,338	5,451,987
Instructional staff	2,717,757	765,946	2,965,342	6,449,045
Board of education	81,470	-	19,000	100,470
Administration	661,854	56,482	116,909	835,245
Fiscal	541,573	50,047	115,289	706,909
Business	311,109	-	-	311,109
Operations and maintenance	236,332	46,514	123,923	406,769
Pupil transportation	-	14,825	-	14,825
Central	650,729	-	2,000	652,729
Operation of non-instructional services	155,077	-	1,748	156,825
Total expenditures	<u>18,068,388</u>	<u>1,735,925</u>	<u>3,539,884</u>	<u>23,344,197</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,001,863)</u>	<u>175,668</u>	<u>(264,105)</u>	<u>(1,090,300)</u>
Other financing sources (uses):				
Transfers in	-	-	120,000	120,000
Transfers (out)	<u>(120,000)</u>	<u>-</u>	<u>-</u>	<u>(120,000)</u>
Total other financing sources (uses)	<u>(120,000)</u>	<u>-</u>	<u>120,000</u>	<u>-</u>
Net change in fund balances	(1,121,863)	175,668	(144,105)	(1,090,300)
Fund balances (deficit)				
at beginning of year (restated)	1,287,398	(184,121)	1,160,142	2,263,419
Fund balances (deficit) at end of year	<u>\$ 165,535</u>	<u>\$ (8,453)</u>	<u>\$ 1,016,037</u>	<u>\$ 1,173,119</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

Net change in fund balances - total governmental funds \$ (1,090,300)

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$ 13,689	
Current year depreciation	(136,014)	
Total		(122,325)

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

Customer services	674,448	
Earnings on investments	5,050	
Intergovernmental revenue	753,739	
Total		1,433,237

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

(127,055)

Change in net assets of governmental activities \$ 93,557

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	Agency
Assets:	
Equity in pooled cash and investments. . . .	\$ 1,487,040
Receivables:	
Intergovernmental.	7,366
Total assets.	\$ 1,494,406
Liabilities:	
Accounts payable.	\$ 24,413
Accrued wages and benefits	21,050
Intergovernmental payable	15,080
Pension obligation payable.	9,520
Undistributed monies.	1,424,343
Total liabilities	\$ 1,494,406

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

NOTE 1 - DESCRIPTION OF THE ESC

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

The ESC operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State and federal agencies. The Governing Board oversees the ESC's operation and its staff of 207 certified and 77 non-certified personnel. Staff members support the educational efforts of 12 local school districts, 2 city school districts, 1 exempted village school district, 3 charter schools and their 22,938 students. In addition, staff members also support the Mahoning Unlimited Classroom and its 183 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities provided it does not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

A. Reporting Entity

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

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

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

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

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

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

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

COMPONENT UNIT

Mahoning Unlimited Classroom ("MUC")

The MUC is a legally separate, conversion community school, served by a Board of Directors. The MUC focuses on providing students with curriculum and instruction via distance learning technology. The seven person Board of Directors, appointed by the ESC, consists of three persons employed in administrator positions with the ESC, one person employed in an administrator position with the Mahoning County Career and Technical Center ("MCCT"), one person who is neither an officer nor employee of the ESC or MCCT who shall be a public educator or other public officer, one person who is appointed to represent the interests of the parents and students of the MUC, and the MUC's Treasurer. The MUC Treasurer is a non-voting ex-officio of the Board of Directors. The ESC sponsored the MUC during fiscal year 2011 under Ohio Revised Code Chapter 3314. Based on the significant services provided by the ESC to the MUC, the MUC's purpose of service to the students within the district, and the relationship between the Governing Board of the ESC and the Board of Directors of the MUC, the MUC is a component unit of the ESC. Separately issued financial statements can be obtained from the ESC's Treasurer. See Note 15 for additional information on the MUC.

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Educational Service System (ACCESS)

ACCESS is a jointly governed organization among 23 school districts, 1 community school, 1 special education resource center, 2 county educational service centers and 2 career and technical centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The nine-member Board of Directors consists of 2 treasurers and 6 superintendents from participating school districts. The ACCESS treasurer is an ex-officio member of the Board of Directors. The degree of control exercised by any participating school district is limited to its representation on the Board. The ESC is the fiscal agent for the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting and designating management. The consortium revenues are generated from charges for services, State funding and E-rateable services.

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

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

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

Region 12 Professional Development Center (RPDC)

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

The RPDC is governed by a Governing Board made up of 19 representatives of the participating school districts, the business community and Youngstown State University. Members' terms rotate annually. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. The ESC serves as fiscal agent for RPDC. Financial activity for fiscal year 2011 is reported in the financial statements as an agency fund.

RELATED ORGANIZATION

Mahoning County Career and Technical Center

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

PUBLIC ENTITY RISK POOLS

Ohio Association of School Business Officials

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

Mahoning County Insurance Consortium

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

B. Fund Accounting

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

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

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

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

GOVERNMENTAL FUNDS

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

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

Miscellaneous federal grants fund -This fund is used to account for federal monies received which are not classified elsewhere.

Other governmental funds of the ESC are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net 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. The ESC's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

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

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

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

On governmental fund financial statements, receivables that will not be collected within the available period have 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

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

F. State Funding

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

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

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

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

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

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

G. Cash and Investments

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

During fiscal year 2011, investments were limited to federal agency securities, money market mutual fund and State Treasury Asset Reserve (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

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

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$19,830, which includes \$11,192 assigned from other ESC funds.

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

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

H. Inventory

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

Inventory consists of expendable supplies held for consumption.

I. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net 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 ESC maintains a capitalization threshold of \$1,000. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

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

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

J. Compensated Absences

GASB Statement No. 16, "Accounting for Compensated Absences", specifies the method used to accrue liabilities for leave benefits. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the ESC will compensate the employees for the benefits through paid time off or some other means. The ESC records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2011 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

K. Interfund Balances

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Pass-Through Grants

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Fund Balance

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

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

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets and net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes includes amounts restricted for education foundation.

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

P. Estimates

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

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the ESC has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the ESC.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the ESC's governmental fund balances as previously reported:

	General	Miscellaneous Federal Grants	Nonmajor Governmental	Total Governmental
Fund balance (deficit) as previously reported	\$ 1,236,011	\$ (184,121)	\$ 1,211,529	\$ 2,263,419
Fund reclassifications:				
Rotary fund	51,387	-	(51,387)	-
Restated fund balance (deficit) at July 1, 2010	\$ 1,287,398	\$ (184,121)	\$ 1,160,142	\$ 2,263,419

The fund reclassifications did not have an effect on net assets as previously reported.

C. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Major fund:</u>	<u>Deficit</u>
Miscellaneous federal grants	\$ 8,453
 <u>Nonmajor funds</u>	
Public school preschool	155
Alternative schools	228
IDEA Part B - preschool	2,452

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all ESC deposits was \$160,705. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$364,712 of the ESC's bank balance of \$640,212 was exposed to custodial risk as discussed below, while \$275,500 was covered by the FDIC.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2011, the ESC had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FFCB	\$ 300,339	\$ -	\$ -	\$ 300,339	\$ -	\$ -
FHLB	1,157,879	-	-	305,625	-	852,254
FNMA	1,277,840	-	-	-	-	1,277,840
FHLMC	451,806	-	-	-	-	451,806
U.S. Government money market mutual funds	541,649	541,649	-	-	-	-
STAR Ohio	5,608	5,608	-	-	-	-
Total	\$ 3,735,121	\$ 547,257	\$ -	\$ 605,964	\$ -	\$ 2,581,900

The weighted average maturity of investments is 2.46 years.

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FFCB	\$ 300,339	8.04
FHLB	1,157,879	31.00
FNMA	1,277,840	34.21
FHLMC	451,806	12.10
U.S. Government money market mutual funds	541,649	14.50
STAR Ohio	<u>5,608</u>	<u>0.15</u>
Total	<u>\$ 3,735,121</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>		
Carrying amount of deposits	\$ 160,705	
Investments	<u>3,735,121</u>	
Total	<u>\$ 3,895,826</u>	
 <u>Cash and investments per statement of net assets</u>		
Governmental activities	\$ 2,408,786	
Agency funds	<u>1,487,040</u>	
Total	<u>\$ 3,895,826</u>	

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2011 as reported on the fund statements, consist of the following “due to/from other funds”:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Miscellaneous federal grants	\$ 77,850
General	Nonmajor governmental funds	23,186

The primary purpose of the due to/from other funds is to cover negative cash balances in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2011 are reported on the statement of net assets.

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund transfers for the year ended June 30, 2011 consisted of the following as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	<u>Amount</u>
General fund	\$120,000

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

- C.** Interfund balances at June 30, 2011 as reported on the fund statements, consist of the following “loans to/from other funds”:

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

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2011 are reported on the statement of net assets.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2011 consisted of accounts, intergovernmental grants and entitlements and accrued interest. All receivables are considered collectible in full. A summary of the items of receivables reported on the statement of net assets follows:

Governmental activities:

Accounts	\$ 463
Intergovernmental	4,335,298
Accrued interest	<u>12,593</u>
Total	<u>\$ 4,348,354</u>

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

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

NOTE 7 - CAPITAL ASSETS

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

	Balance			Balance
	<u>06/30/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>06/30/11</u>
Governmental activities:				
<i>Capital assets, being depreciated:</i>				
Land improvements	\$ 2,482	\$ -	\$ -	\$ 2,482
Furniture and equipment	1,539,326	13,689	-	1,553,015
Vehicles	<u>67,140</u>	<u>-</u>	<u>-</u>	<u>67,140</u>
Total capital assets, being depreciated	<u>1,608,948</u>	<u>13,689</u>	<u>-</u>	<u>1,622,637</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(248)	(497)	-	(745)
Furniture and equipment	(1,157,597)	(132,115)	-	(1,289,712)
Vehicles	<u>(58,636)</u>	<u>(3,402)</u>	<u>-</u>	<u>(62,038)</u>
Total accumulated depreciation	<u>(1,216,481)</u>	<u>(136,014)</u>	<u>-</u>	<u>(1,352,495)</u>
Governmental activities capital assets, net	<u>\$ 392,467</u>	<u>\$ (122,325)</u>	<u>\$ -</u>	<u>\$ 270,142</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 13,654
Special	24,327
Vocational	267
Adult continuing	792

Support services:

Pupil	24,131
Instructional staff	40,857
Administration	16,037
Fiscal	3,805
Business	2,577
Operations and maintenance	4,738
Central	500
Operations of non-instructional services	<u>4,329</u>
Total depreciation expense	<u>\$ 136,014</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the Area Cooperative Computerized Educational Service System (ACCESS), accounted for in the Computer Network agency fund, entered into capital leases for acquiring and equipping a fiber optic network and additional hardware and equipment. In December of 2009, ACCESS refinanced these leases by entering into a \$3,878,000 lease agreement. The lease has an annual interest rate of approximately 4.32%. It is payable in twelve semi-annual payments ranging from \$32,669 to \$871,669, including interest, and matures on June 26, 2015. This lease meets the criteria of a capital lease by FASB Statement No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/11</u>	Amounts Due in <u>One Year</u>
Compensated absences	\$ <u>545,254</u>	\$ <u>337,180</u>	\$ <u>(147,700)</u>	\$ <u>734,734</u>	\$ <u>250,504</u>

Compensated absences will be paid from the fund from which the employee’s salaries are paid which is primarily the general fund.

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from the negotiated agreement and State laws. Classified employees earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and certificated personnel employed for less than 260 days do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 260 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 52 days.

B. Life Insurance

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

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the ESC contracted with the School Insurance Consultants for property and general liability insurance.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - RISK MANAGEMENT - (Continued)

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

B. Workers' Compensation

For fiscal year 2011, the ESC participated in the Ohio School Boards Association and Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual performance rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP.

Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

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

	<u>Single Coverage</u>		<u>Family Coverage</u>	
	<u>Employee Share</u>	<u>Board Share</u>	<u>Employee Share</u>	<u>Board Share</u>
<u>Medical Mutual</u>				
Dental	\$ 3.71	\$ 33.39	\$ 8.94	\$ 80.46
Medical	35.63	320.66	199.52	798.08
Prescription	29.81	69.54	125.18	153.00
	<u>Employee/Spouse Coverage</u>		<u>Employee/Children Coverage</u>	
	<u>Employee Share</u>	<u>Board Share</u>	<u>Employee Share</u>	<u>Board Share</u>
<u>Medical Mutual</u>				
Dental	\$ 6.97	\$ 62.77	\$ 6.23	\$ 56.09
Medical	149.64	598.55	121.14	484.55
Prescription	93.89	114.75	76.00	92.88

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$392,825, \$405,232 and \$295,815, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

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

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

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

NOTE 12 - PENSION PLANS - (Continued)

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

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

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,419,562, \$1,367,991 and \$1,314,011, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$74,393 made by the ESC and \$53,138 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

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

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$130,857, \$101,603 and \$239,906, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$25,279, \$24,098 and \$24,407, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$109,197, \$105,230 and \$101,078, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 15 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL

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

A. Significant Accounting Policies

Accounting Basis - The basic financial statements (BFS) of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, provided it does not conflict with or contradict GASB pronouncements. The School does not apply FASB guidance issued after November 30, 1989. The School's significant accounting policies are described below.

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

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

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

NOTE 15 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

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

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

Cash - Cash received by the School is maintained in a demand deposit account.

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

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

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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

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

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the School is reporting accurate enrollment data to the State, upon which State Foundation funding is calculated.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 15 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

Unearned Revenue - Unearned revenue arises when assets are recognized before revenue recognition requirements have been satisfied. Grant revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. The review, which was conducted after fiscal year-end, resulted in an overpayment to the School of \$5,989. This amount is included as an intergovernmental payable on the basic financial statements.

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

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

B. Deposits and Investments

At June 30, 2011, the carrying amount of all School deposits was \$629,767. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2011, \$250,000 of the School’s bank balance of \$648,376 was covered by the FDIC, while \$398,376 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the School’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

C. Capital Assets

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

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2011</u>
Furniture and equipment	\$ 341,125	\$ -	\$ -	\$ 341,125
Less: accumulated depreciation	<u>(150,514)</u>	<u>(34,113)</u>	<u>-</u>	<u>(184,627)</u>
Capital assets, net	<u>\$ 190,611</u>	<u>\$ (34,113)</u>	<u>\$ -</u>	<u>\$ 156,498</u>

D. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2011, professional liability is provided through Mahoning County Educational Service Center’s Argonaut Insurance Co. Plan with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 15 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

E. Purchased Services

For the fiscal year ended June 30, 2011, purchased service expenses were as follows:

Professional and technical services	\$ 1,149,836
Property services	36,293
Travel expenses	8,859
Communications	<u>19,847</u>
Total	<u>\$ 1,214,835</u>

F. Service Agreements

Area Cooperative Computerized Educational Service System (ACCESS) - The School entered into a one-year agreement commencing on July 1, 2010 and ending June 30, 2011, with ACCESS for internet access, electronic mail, Ohio Uniform School Accounting System (USAS), the Uniform Staff Payroll System (USPS), Educational Management Information System (EMIS), Student Information System (SIS/POISE) to include student grade reporting, attendance and scheduling and INFOhio Automated library services. Separate and apart from this agreement, the School agrees to obtain at its own expense, the additional computer and electronic equipment necessary for receipt of these services at the School's facilities. The School paid ACCESS \$3,723 for services during fiscal year 2011.

Mahoning County ESC - The School had a service contract with the ESC. This contract outlined the services that would be provided to the School. The School made payments totaling \$1,129,750 during fiscal year 2011 to the ESC.

G. Contingencies

Grants - The School received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2011.

SUPPLEMENTARY INFORMATION

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition	\$ 11,709,920	\$ 11,370,677	\$ 11,399,491	\$ 28,814
Earnings on investments	49,947	48,500	57,042	8,542
Customer services.	3,407,920	3,309,191	3,030,860	(278,331)
Other local revenues	48,981	47,562	48,184	622
Intergovernmental - state.	2,317,587	2,250,445	1,882,357	(368,088)
Intergovernmental - federal.	171,354	166,390	151,985	(14,405)
Total revenues	<u>17,705,709</u>	<u>17,192,765</u>	<u>16,569,919</u>	<u>(622,846)</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,861,226	1,893,093	1,910,223	(17,130)
Special.	6,082,011	6,186,141	5,970,555	215,586
Vocational.	72,006	73,239	62,631	10,608
Support services:				
Pupil.	4,798,797	4,880,959	4,632,722	248,237
Instructional staff	2,617,346	2,662,158	2,697,052	(34,894)
Board of education	71,295	72,516	55,823	16,693
Administration.	754,675	767,596	671,902	95,694
Fiscal	591,183	601,305	547,401	53,904
Business	346,694	352,630	323,699	28,931
Operations and maintenance.	254,580	258,939	242,355	16,584
Pupil transportation	206	210	-	210
Central.	586,816	596,863	654,509	(57,646)
Operation of non-instructional services	229,985	233,923	199,782	34,141
Total expenditures	<u>18,266,820</u>	<u>18,579,572</u>	<u>17,968,654</u>	<u>610,918</u>
Excess of expenditures over revenues.	<u>(561,111)</u>	<u>(1,386,807)</u>	<u>(1,398,735)</u>	<u>(11,928)</u>
Other financing uses:				
Transfers out.	<u>(117,980)</u>	<u>(120,000)</u>	<u>(120,000)</u>	<u>-</u>
Total other financing uses	<u>(117,980)</u>	<u>(120,000)</u>	<u>(120,000)</u>	<u>-</u>
Net change in fund balance	(679,091)	(1,506,807)	(1,518,735)	(11,928)
Fund balance at beginning of year (restated)	2,173,861	2,173,861	2,173,861	-
Prior year encumbrances appropriated	330,356	330,356	330,356	-
Fund balance at end of year	<u>\$ 1,825,126</u>	<u>\$ 997,410</u>	<u>\$ 985,482</u>	<u>\$ (11,928)</u>

SEE ACCOMPANYING NOTES TO THE BUDGETARY COMPARISON SCHEDULES

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

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MISCELLANEOUS FEDERAL GRANTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues:				
Intergovernmental - federal	\$ 2,081,371	\$ 2,303,316	\$ 1,813,772	\$ (489,544)
Total revenue	<u>2,081,371</u>	<u>2,303,316</u>	<u>1,813,772</u>	<u>(489,544)</u>
Expenditures:				
Current:				
Instruction:				
Special.	53,918	77,037	61,341	15,696
Support services:				
Pupil.	1,023,143	1,461,849	737,571	724,278
Instructional staff	853,221	1,219,067	944,351	274,716
Administration.	50,655	72,375	57,140	15,235
Fiscal	63,374	90,548	69,679	20,869
Operations and maintenance.	37,262	53,240	48,175	5,065
Pupil transportation	19,288	27,558	24,175	3,383
Total expenditures	<u>2,100,861</u>	<u>3,001,674</u>	<u>1,942,432</u>	<u>1,059,242</u>
Net change in fund balance	(19,490)	(698,358)	(128,660)	569,698
Fund balance (deficit) at beginning of year.	(336,092)	(336,092)	(336,092)	-
Prior year encumbrances appropriated . .	198,224	198,224	198,224	-
Fund balance (deficit) at end of year	<u>\$ (157,358)</u>	<u>\$ (836,226)</u>	<u>\$ (266,528)</u>	<u>\$ 569,698</u>

SEE ACCOMPANYING NOTES TO THE BUDGETARY COMPARISON SCHEDULES

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

**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - BUDGETARY PROCESS

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

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

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

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

NOTE 2 - BUDGETARY PRIOR PERIOD ADJUSTMENT

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The ESC has elected to report only the legally budgeted general fund in the budgetary schedule; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

Budgetary Basis	
	<u>General Fund</u>
Balance at June 30, 2010	\$ 2,184,963
Funds budgeted elsewhere	<u>(11,102)</u>
Restated balance at July 1, 2010	<u>\$ 2,173,861</u>

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
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**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned, committed or restricted fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

	<u>General fund</u>	<u>Miscellaneous Federal Grants</u>
Budget basis	\$ (1,518,735)	\$ (128,660)
Net adjustment for revenue accruals	260,515	97,821
Net adjustment for expenditure accruals	(177,631)	17,829
Funds budgeted elsewhere	26,987	-
Adjustment for encumbrances	<u>287,001</u>	<u>188,678</u>
GAAP basis	<u>\$ (1,121,863)</u>	<u>\$ 175,668</u>

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

MAHONING COUNTY EDUCATIONAL SERVICE CENTER

MAHONING COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	2011	10.553	\$14,142	\$14,142
National School Lunch Program	2011	10.555	27,329	27,329
Total - Nutrition Cluster			41,471	41,471
Child and Adult Care Food Program	2011	10.558	1,425	1,425
Total U.S. Department of Agriculture			42,896	42,896
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Direct Funding:</i>				
Funds for the Improvement of Education	2011	84.215	207,444	207,430
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States - IDEA Part B	2010	84.027	95,204	174,012
Special Education Grants to States - IDEA Part B	2011	84.027	1,316,259	1,353,913
IDEA Preschool - ARRA	2010	84.392	26,343	27,399
IDEA Preschool - ARRA	2011	84.392	83,142	86,229
Special Education - Preschool Grant	2010	84.173	20,979	24,959
Special Education - Preschool Grant	2011	84.173	120,162	119,027
Total - Special Education Cluster			1,662,089	1,785,539
Title I Grants to Local Educational Agencies Cluster	2010	84.010		55,395
English Language Acquisition Grants	2010	84.365	758	3,432
	2011	84.365	12,124	12,112
Total - English Language Acquisition Grants			12,882	15,544
<i>Passed through the Ohio Rehabilitation Services Commission:</i>				
Rehabilitation Services-Vocational Rehabilitation Grants	2010	84.126	436,890	274,116
	2011	84.126	531,713	657,335
Total - Rehabilitation Services - Vocational Rehabilitation Grants			968,603	931,451
Total U.S. Department of Education			2,851,018	2,995,359
Total Federal Assistance			\$2,893,914	\$3,038,255

The accompanying notes are an integral part of this schedule.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A- SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Center's federal award program's receipts and disbursements. The Schedule has been prepared on a cash basis of accounting.

NOTE B- CHILD NUTRITION CLUSTER

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

NOTE C – MATCHING REQUIREMENTS

Certain Federal programs require that the Center contribute non-federal funds (matching funds) to support the Federally-funded programs. The Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE D – REPORTING

The Mahoning County Educational Service Center (the Center) has excluded federal financial assistance reported by the Mahoning County Family and Children First Council (the Council) in relation to the Special Education-Grants for Infants and Families, Temporary Assistance for Needy Families (TANF), Promoting Safe and Stable Families and Child and Adult Care Food Programs. The Center serves as fiscal agent for the programs, which are passed through the Council.

The Center has excluded federal assistance reported by the Mahoning County High School (MCHS) in relation to State Fiscal Stabilization Fund, Charter School, Improving Teacher Quality, Education Technology, Special Education and Title 1 Basic Grants, which are passed through the Council.

The Center has also excluded federal financial assistance reported for its component unit the Mahoning County Unlimited Classroom in relation to the State Fiscal Stabilization Fund, Drug Free Schools, Education Jobs, Education Technology, Improving Teacher Quality, Special Education, and Title 1 Basic Grants.

The Center has also excluded federal financial assistance for the Special Education – State Personnel Development Grant and Improving Teacher Quality Grants that the Center serves as fiscal agent for the Ohio Department of Education and is audited as part of their audit.



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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTANTS' 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*

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

To the Governing Board:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Mahoning County Educational Service Center (the Center), Mahoning County, Ohio as of and for the year ended June 30, 2011, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 15, 2012, in which we noted the Center implemented 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

In planning and performing our audit, we considered the 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 Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated February 15, 2012.

We intend this report solely for the information and use of the Governing Board, management, federal awarding agencies and pass-through entities, and others within the Center. We intend it for no one other than these specified parties.



CANTER & ASSOCIATES

Poland, Ohio

February 15, 2012



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

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

To the Governing Board:

Compliance

We have audited the compliance of the Mahoning County Educational Service Center (the Center), Mahoning County, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could directly and materially affect each of Mahoning County Educational Service Center's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal programs. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs. Our responsibility is to express an opinion on the Center's compliance based on our audit.

Special Education Grant for Infants and Families, Temporary Assistance for Needy Families, Promoting Safe and Stable Families and Child and Adult Care Food grants passed through to the Mahoning County Family and Children First Council (the Council) are subjected to audit procedures under OMB Circular A-133 and are reported on separately. The Council received \$536,465 and expended \$518,877 in federal awards during fiscal year 2011 that are not included in the Schedule of Expenditures of Federal Awards for the Mahoning County Educational Service Center for the year ended June 30, 2011.

State Fiscal Stabilization Fund, Charter School, Improving Teacher Quality, Education Technology, Special Education, and Title 1 Basic grants passed through to the Mahoning County High School (MCHS) are subjected to audit procedures under OMB Circular A-133 and are reported on separately. The MCHS received \$270,214 and expended \$287,269 in federal awards during fiscal year 2011 that are not included in the Schedule of Expenditures of Federal Awards for the Mahoning County Educational Service Center for the year ended June 30, 2011.

Mahoning County Educational Service Center's basic financial statements include the operations of the Mahoning County Unlimited Classroom, a component unit of the Mahoning County Educational Service Center. The Mahoning County Unlimited Classroom received \$250,908 and expended \$284,537 in federal awards during fiscal year 2011 that are not included in the Schedule of Expenditures of Federal Awards for Mahoning County Educational Service Center for the year ended June 30, 2011. Our audit of federal awards, described below, did not include the operations of the Mahoning County Unlimited Classroom. This component unit expended less than \$500,000 for the year ended June 30, 2011 and thus was not required to have an audit of their Federal Awards in accordance with OMB Circular A-133.

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 occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Mahoning County Educational Service Center, Mahoning County, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The Center's management 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 Center's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining 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 opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the 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, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be 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.

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



CANTER & ASSOCIATES

Poland, Ohio

February 15, 2012

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
YEAR ENDED JUNE 30, 2011

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	UNQUALIFIED
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	NO
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	NO
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	UNQUALIFIED
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	NO
<i>(d)(1)(vii)</i>	Major Programs (list):	1- Rehabilitation Services- Vocational Rehabilitation Grants to States – 84.126 2- Special Education Cluster – 84.027/84.173/84.392
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	NO

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

NONE

3. FINDINGS FOR FEDERAL AWARDS

NONE

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Dave Yost • Auditor of State

MAHONING EDUCATIONAL SERVICE CENTER

MAHONING COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 8, 2012**