

METROPOLITAN REGIONAL SERVICE COUNCIL

SUMMIT COUNTY

AUDIT REPORT

For the Years Ended June 30, 2013 and 2012





Dave Yost • Auditor of State

Board of Directors
Metropolitan Regional Service Council
700 Graham Road
Cuyahoga Falls, Ohio 44221

We have reviewed the *Report of Independent Accountants* of the Metropolitan Regional Service Council, Summit County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2011 through June 30, 2013. 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 Metropolitan Regional Service Council is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

December 2, 2013

This page intentionally left blank.

METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
TABLE OF CONTENTS
For the Years Ended June 30, 2013 and 2012

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1-2
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance – General Fund - For the Year Ended June 30, 2013	3
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance – General Fund - For the Year Ended June 30, 2012	4
Notes to the Financial Statements	5-10
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	11-12
Schedule of Prior Audit Findings	13

This page intentionally left blank.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Metropolitan Regional Service Council
Summit County
700 Graham Road
Cuyahoga Falls, Ohio 44221

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Metropolitan Regional Service Council, Summit County, Ohio (MRSC), as of and for the years ended June 30, 2013 and 2012.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the MRSC prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonable determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis of Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the MRSC as of June 30, 2013 and 2012, or changes in financial position for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of the Metropolitan Regional Service Council, Summit County as of June 30, 2013 and 2012, and its cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

Emphasis of Matter

As discussed in Note 7 to the financial statements, during 2012 MRSC adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013 on our consideration of the MRSC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the MRSC's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
September 30, 2013

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCE -
GENERAL FUND
For the year ended June 30, 2013**

	Governmental Fund Type
	General
Cash Receipts:	
Intergovernmental	\$ 335,982
Charges for Services	3,949,428
Earning on Investment	917
Miscellaneous	644
Total Cash Receipts	4,286,971
Cash Disbursements:	
Employee Wages and Benefits	1,460,714
Purchased Services	1,759,583
Supplies and Materials	821,646
Miscellaneous	54,232
Capital Outlay	1,869,558
Debt Service:	
Principal Retirement	80,191
Interest and Fiscal Charges	30,306
Total Cash Disbursements	6,076,230
Total Receipts Over/(Under) Disbursements	(1,789,259)
Other Financing Receipts (Disbursements) Proceeds of Debt	1,400,000
Total Other Financing Receipts (Disbursements)	1,400,000
Net Change in Fund Cash Balance	(389,259)
Fund Cash Balance July 1, 2012	1,307,056
Fund Cash Balance June 30, 2013	
Assigned	723,676
Unassigned	194,121
Fund Cash Balance June 30, 2013	\$ 917,797

The notes to the financial statements are an integral part of these statements.

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCE -
GENERAL FUND
For the year ended June 30, 2012**

	Governmental Fund Type
	General
Cash Receipts:	
Intergovernmental	\$ 334,327
Charges for Services	4,027,247
Earning on Investment	1,938
Total Cash Receipts	4,363,512
Cash Disbursements:	
Employee Wages and Benefits	1,354,951
Purchased Services	1,911,788
Supplies and Materials	802,182
Miscellaneous	47,042
Capital Outlay	258,563
Total Cash Disbursements	4,374,526
Net Change in Fund Cash Balance	(11,014)
Fund Cash Balance July 1, 2011	1,318,070
Fund Cash Balance. June 30, 2012	
Restricted	250,000
Assigned	122,249
Unassigned	934,807
Fund Cash Balance. June 30, 2012	\$ 1,307,056

The notes to the financial statements are an integral part of these statements.

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2013 and 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Metropolitan Regional Service Council (MRSC), Summit County, is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Section 167.04 of the Ohio Revised Code.

MRSC is a Council of Governments owned and operated by forty educational entities in the Ohio counties of Cuyahoga, Medina, Summit and Portage. The superintendents of these member districts comprise MRSC's assembly. The primary program of MRSC is known as the Northeast Ohio Network for Educational Technology (NEOnet). The program provides information technology services to its member school districts with major emphasis being placed on student management, accounting, payroll and inventory control services.

The MRSC is one of twenty-three regional service organizations serving over 900 public school districts in the State of Ohio that make up the Ohio Educational Computer Network (OECN). These service organizations are known as Information Technology Centers (ITC). The OECN is a collective group of ITCs, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member school districts. Such sites, in conjunction with the Ohio Department of Education, comprise a statewide delivery system to provide comprehensive, cost-efficient accounting, and other administrative and instructional computer services for participating Ohio school districts. Funding for this network, which includes MRSC, is primarily derived from user fees assessed to the respective member districts and from the State of Ohio.

MRSC's management believes these financial statements present all activities for which MRSC is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2013 and 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Cash and Investments

The provisions of the Ohio Revised Code restrict investment procedures. Purchased investments are valued at purchase cost. Interest earned is recognized and recorded when received.

D. Fund Accounting

MRSC uses fund accounting to segregate cash and investments that are restricted as to use. MRSC classifies its funds into the following types:

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

E. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which MRSC must observe constraints imposed upon the use of its governmental-fund resources.

- 1. Nonspendable** – MRSC classifies assets as nonspendable when legally or contractually required to maintain the amounts intact.
- 2. Restricted** – Fund balance is restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.
- 3. Committed** – The Board of Directors can commit amounts via formal action (resolution). The MRSC must adhere to these commitments unless the Board amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.
- 4. Assigned** – Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as restricted or committed. Governmental funds other than the general fund report all fund balances as assigned unless they are restricted or committed. In the general fund, assigned amounts represent intended uses established by the Board of Trustees.
- 5. Unassigned** – Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficient balance.

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2013 and 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Balance (Continued)

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

F. Budgetary Process

MRSC is not required to follow the budgetary process but has decided to adopt a formal budget annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control. The Board annually approves appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of July 1.

3. Encumbrances

The MRSC reserves (encumbers) appropriations when commitments are made. Encumbrances outstanding at year end are carried over and need not be reappropriated.

As of June 30, 2013 and 2012, encumbrances of \$723,676 and \$122,249, respectively remained open.

G. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

H. Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by MRSC.

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2013 and 2012**

2. EQUITY IN POOLED CASH AND INVESTMENTS

The MRSC maintains a cash pool using all funds. The Ohio Revised Code prescribes allowable deposits and investments.

The carrying amount of the MRSC's cash and investments at June 30 was as follows:

	2013	2012
Demand Deposits	\$ 707,797	\$ 247,056
Repurchase Agreements	210,000	1,060,000
Total Investments and Cash	<u>\$ 917,797</u>	<u>\$ 1,307,056</u>

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Investments: MRSC's financial institution transfers securities to the MRSC's agent to collateralize repurchase agreements. The securities are not in the MRSC's name.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended June 30, 2013 and 2012 follows:

2013 Budgeted vs Actual Receipts

<u>Fund:</u>	Budgeted Receipts	Actual Receipts	Variance
General Fund	\$ 4,222,988	\$ 5,686,971	\$ 1,463,983

2013 Budgeted vs Actual Budgetary Basis Disbursements

<u>Fund:</u>	Appropriation Authority	Budgetary Disbursements	Variance
General Fund	\$ 4,787,485	\$ 6,799,906	\$ (2,012,421)

2012 Budgeted vs Actual Receipts

<u>Fund:</u>	Budgeted Receipts	Actual Receipts	Variance
General Fund	\$ 4,083,281	\$ 4,363,512	\$ 280,231

2012 Budgeted vs Actual Budgetary Basis Disbursements

<u>Fund:</u>	Appropriation Authority	Budgetary Disbursements	Variance
General Fund	\$ 4,418,696	\$ 4,496,775	\$ (78,079)

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2013 and 2012**

4. RETIREMENT SYSTEM

The MRSC's employees belong to the School Employees Retirement System (SERS) of Ohio. SERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including post-retirement health care, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code. MRSC has paid all contributions required through June 30, 2013.

Contribution rates are also prescribed by the Ohio Revised Code. MRSC's members are required to contribute 10% of their annual covered salary, and MRSC is required to contribute 14% of the employees' salaries.

5. RISK MANAGEMENT

A. Commercial Insurance

MRSC is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

B. Risk Pool Membership

MRSC belongs to the Ohio School Plan, a risk-sharing pool that provide a formalized, jointly administered liability self-insurance program to maintain adequate self-insurance protection, risk management programs and other administrative services. The Plan is a separate legal entity for the purpose of enabling its members to obtain self-insurance through a jointly administered self-insurance fund. Members of the Plan include public school districts, educational service centers, joint vocational schools, centers of government, and mental retardation/developmentally disabled boards in State of Ohio.

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of December 31 (the latest information available):

	<u>2012</u>	<u>2011</u>
Total assets	\$ 5,351,369	\$ 4,280,876
Total liabilities	<u>2,734,952</u>	<u>1,812,420</u>
Accumulated surplus	<u>\$ 2,616,417</u>	<u>\$ 2,468,456</u>

The Plan had 260 and 239 members as of December 31, 2012 and 2011. The Plan has an agreement with Hylant Administrative Services, LLC (HAS) to provide underwriting, claims management, risk management, accounting, system support services, sales and marketing for the Plan. The Plan has agreed to pay judgments, settlements and other expenses resulting from claims arising related to the coverage provided, in excess of the member's deductible. The Plan has developed the policy forms and endorsements of coverage and substantially reinsured these coverages. The individual members are only responsible for their self-retention (deductible) amounts that vary from member to member. MRSC purchased health coverage through Medical Mutual of Ohio insurance plan and maintained dental coverage through Standard insurance plan.

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2013 and 2012**

6. DEBT

Debt outstanding at June 30, 2013 was as follows:

	Principal	Interest Rate
Tax-Exempt Promissory Note	\$ 1,319,809	3.42%

MRSC issued tax-exempt promissory note to purchase a building. The promissory note was issued on October 24, 2012, in the amount of \$1,400,000, and has a maturity date of October 15, 2022.

The amortization of the above debt, including interest, is scheduled as follows:

Promissory Note			
Year	Principal	Interest	Total
2013	\$ 121,900	\$ 43,844	\$ 165,744
2014	126,195	39,549	165,744
2015	130,547	35,197	165,744
2016	135,240	30,504	165,744
2017	140,005	25,739	165,744
2018-2022	665,922	52,303	718,225
Total	\$ 1,319,809	\$ 227,136	\$ 1,546,945

7. CHANGE IN ACCOUNTING PRINCIPLE

For 2012, MRSC implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement 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. The implementation of GASB Statement No. 54 had no effect on the fund balances as previously reported.

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

Metropolitan Regional Service Council
Summit County
700 Graham Road
Cuyahoga Falls, Ohio 44221

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Metropolitan Regional Service Council (MRSC), Summit County, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the MRSC's basic financial statements and have issued our report thereon dated September 30, 2013, wherein we noted MRSC followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the MRSC's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

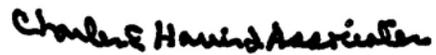
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Charles E. Harris" followed by "Associates" in a smaller, less legible script.

Charles E. Harris and Associates, Inc.
September 30, 2013

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
For the years ended June 30, 2013 and 2012**

The prior audit report, for the years ending June 30, 2011 and 2010, reported no material citations or recommendations.

This page intentionally left blank.



Dave Yost • Auditor of State

METROPOLITAN REGIONAL SERVICE COUNCIL

SUMMIT 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
DECEMBER 12, 2013**