



Dave Yost • Auditor of State



SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Six District Educational Compact  
Summit County  
2386 Hudson-Aurora Road  
Hudson, Ohio 44236

To the Executive Committee:

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Six District Educational Compact, Summit County, Ohio (the Compact), as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the Compact's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 1 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

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

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Compact'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 Compact's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities and each major fund of Six District Educational Compact, Summit County, Ohio, as of June 30, 2012, and the respective changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 1.

***Accounting Basis***

We draw attention to Note 1 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Other Matters***

*Supplemental and Other Information*

We audited to opine on the Compact's financial statements that collectively comprise its basic financial statements.

*Management's Discussion & Analysis* includes tables of net cash assets, changes in net cash assets, and governmental activities. This information provides additional analysis and is not a required part of the basic financial statements.

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

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of the Compact'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 Compact's internal control over financial reporting and compliance.

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

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

October 25, 2013

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**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

The management's discussion and analysis of the Six District Educational Compact (the "Compact") financial performance provides an overall review of the Compact's financial activities for the fiscal year ended June 30, 2012, within the limitations of the Compact's cash basis of accounting. The intent of this discussion and analysis is to look at the Compact's financial performance as a whole; readers should also review the cash-basis basic financial statements and the notes to the financial statements to enhance their understanding of the Compact's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2012 are as follows:

- The total net cash assets of the governmental activities decreased \$8,784 during fiscal year 2012, which represents a 6.13% decrease from fiscal year 2011.
- For fiscal year 2012, the Compact had \$1,233,041 in cash disbursements related to governmental activities; \$1,224,257 of these cash disbursements were offset by program specific charges for services, grants or contributions.
- The Compact's major funds are the general fund, other local grants fund and the vocational education grants fund. The general fund had cash receipts of \$931,325 and cash disbursements of \$925,662 in 2012. The general fund cash balance increased \$5,663 from 2011 to 2012.
- The other local grants fund, a Compact major fund, had cash receipts of \$23,315 and cash disbursements of \$20,011 resulting in an increase in fund cash balance of \$3,304 from 2011 to 2012.
- Cash receipts for the vocational education grants fund, a Compact major fund, totaled \$269,617 and cash disbursements were \$287,368. The vocational education grants fund cash balance decreased \$17,751 from 2011 to 2012.

**Using These Basic Financial Statements (BFS)**

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

The statement of net assets - cash basis and statement of activities - cash basis provides information about the activities of the whole Compact, presenting an aggregate view of the Compact's cash basis 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 Compact's most significant funds and in the case of the Compact, all three governmental funds - the general fund, other local grants fund, and the vocational education grants fund - are reported as major funds.

**Reporting the Compact as a Whole**

*Statement of Net Assets and the Statement of Activities*

The statement of net assets - cash basis and the statement of activities - cash basis answer the question, "How did we do financially during 2012?" These statements include *only net assets* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

These two statements report the Compact's net assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the Compact as a whole, the cash basis financial position of the Compact 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 Compact's facility conditions, mandated federal and state programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net assets - cash basis and the statement of activities - cash basis, the governmental activities includes the Compact's programs and services including instruction, and support services.

The statement of net assets - cash basis and the statement of activities - cash basis can be found on pages 13-14 of this report.

### **Reporting the Compact's Most Significant Funds**

#### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Compact, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Compact can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The Compact has no proprietary or fiduciary funds.

Fund financial reports provide detailed information about the Compact's major funds. The Compact uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Compact's most significant funds. The Compact's major governmental funds are the general fund, other local grants fund and the vocational education grants fund. The analysis of the Compact's major governmental funds begins on page 10.

#### ***Governmental Funds***

All of the Compact'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 the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the Compact's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various Compact programs. Since the Compact is reporting on the cash basis of accounting, there are no differences in the net assets and fund cash balances or changes in net cash assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. The governmental fund statements can be found on pages 15-16 of this report.

#### ***Notes to the Financial Statements***

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-23 of this report.

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

**Government-Wide Financial Analysis**

Recall that the statement of net assets - cash basis provides the perspective of the Compact as a whole.

The table below provides a summary of the Compact's net cash assets for 2012 and 2011, respectively.

	<b>Net Cash Assets</b>	
	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 134,624	\$ 143,408
Total assets	<u>134,624</u>	<u>143,408</u>
<u>Net cash assets</u>		
Restricted	32,908	35,805
Unrestricted	<u>101,716</u>	<u>107,603</u>
Total net cash assets	<u>\$ 134,624</u>	<u>\$ 143,408</u>

The total net cash assets of the Compact's governmental activities decreased \$8,784 from fiscal year 2011 to 2012. The balance of government-wide unrestricted net cash assets at June 30, 2012 of \$101,716 may be used to meet the Compact's ongoing obligations.

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

The table below shows the changes in net cash assets for fiscal years 2012 and 2011.

	<b>Change in Net Cash Assets</b>	
	Governmental Activities	Governmental Activities
	<u>2012</u>	<u>2011</u>
<b>Cash receipts:</b>		
Program cash receipts:		
Charges for services	\$ 926,849	\$ 1,071,607
Operating grants and contributions	<u>297,408</u>	<u>320,618</u>
Total program cash receipts	<u>1,224,257</u>	<u>1,392,225</u>
<b>Cash disbursements:</b>		
Current:		
Instruction:		
Regular	6,100	3,977
Vocational	642,865	796,029
Other	1,179	2,040
Support services:		
Pupil	132,261	166,069
Instructional staff	256,650	243,880
Central	17,511	1,418
Extracurricular activities	2,500	-
Pass-through	<u>173,975</u>	<u>168,234</u>
Total cash disbursements	<u>1,233,041</u>	<u>1,381,647</u>
Change in net cash assets	(8,784)	10,578
Net cash assets at beginning of year	<u>143,408</u>	<u>132,830</u>
Net cash assets at end of year	<u>\$ 134,624</u>	<u>\$ 143,408</u>

**Governmental Activities**

Governmental net cash assets decreased \$8,784 in 2012 from 2011. For 2012, total governmental cash disbursements of \$1,233,041 were offset by program cash receipts of \$1,224,257.

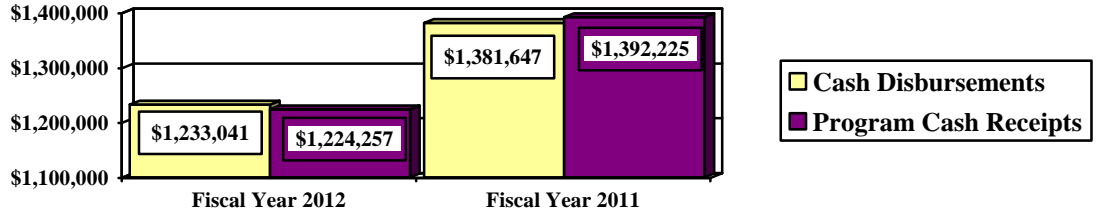
The primary sources of cash receipts for governmental activities are derived from charges for services. These sources represent 75.71% of total governmental program cash receipts for 2012.

The largest cash disbursement of the Compact is for instructional activities. These cash disbursements totaled \$650,144 or 52.73% of total governmental cash disbursements for fiscal year 2012.

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

**Governmental Activities – Program Cash Receipts vs. Total Cash Disbursements**



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 for 2012 and 2011.

**Governmental Activities**

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
Cash disbursements:				
Current:				
Instruction:				
Regular	\$ 6,100	\$ 1,224	\$ 3,977	\$ (402)
Vocational	642,865	-	796,029	-
Other	1,179	237	2,040	(206)
Support services:				
Pupil	132,261	10,118	166,069	(115)
Instructional staff	256,650	(10,907)	243,880	(12,802)
Central	17,511	(2,891)	1,418	1,418
Extracurricular activities	2,500	(413)	-	-
Pass-through	173,975	11,416	168,234	1,529
<b>Total</b>	<b>\$ 1,233,041</b>	<b>\$ 8,784</b>	<b>\$ 1,381,647</b>	<b>\$ (10,578)</b>

The dependence upon program cash receipts for governmental activities is apparent; with all of cash disbursements supported through program cash receipts from charges for services and operating grants and contributions during 2012.

**Financial Analysis of the Government's Funds**

As noted earlier, the Compact uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

***Governmental Funds***

The Compact's governmental funds are accounted for using the cash basis of accounting.

The Compact's governmental funds reported a combined fund cash balance of \$134,624, which is \$8,784 below the 2011 fund cash balance of \$143,408. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2012 and 2011, for all governmental funds.

	<b>Fund Cash Balance (Deficit)</b>		Increase
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>(Decrease)</u>
Major Funds:			
General	\$ 113,266	\$ 107,603	\$ 5,663
Other Local Grants	32,908	29,604	3,304
Vocational Education Grants	<u>(11,550)</u>	<u>6,201</u>	<u>(17,751)</u>
<b>Total</b>	<b><u>\$ 134,624</u></b>	<b><u>\$ 143,408</u></b>	<b><u>\$ (8,784)</u></b>

***General Fund***

The general fund, a Compact major fund, had cash receipts of \$931,325 in 2012. The primary source of revenue in the general fund is charges for services. The cash disbursements of the general fund totaled \$925,662 in 2012. The general fund's cash disbursements in 2012 were primarily for vocational instruction costs and instructional staff support costs. The general fund's cash balance increased \$5,663 from 2011 to 2012.

***Other Local Grants Fund***

The other local grants fund, a Compact major fund, had cash receipts of \$23,315 from contributions and donations, and cash disbursements of \$20,011 in 2012. The other local grants fund cash balance increased \$3,304 from 2011 to 2012.

***Vocational Education Grants Fund***

The vocational education grants fund, a Compact major fund, had cash receipts of \$269,617 in 2012. These receipts were all intergovernmental federal revenue. The vocational education grants fund had cash disbursements of \$287,368 in 2012. The vocational education grants fund cash balance decreased \$17,751 from 2011 to 2012.

**Capital Assets and Debt Administration**

***Capital Assets***

The Compact does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The Compact had no capital outlay disbursements during fiscal year 2012.

***Debt Administration***

The Compact had no long-term debt obligations outstanding at June 30, 2012.

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)**

**Current Financial Related Activities**

Since its inception, the Compact continues to provide Career/College tech prep programming to its six member districts in a manner that is more cost effective than the typical joint vocational school model. The six districts routinely come together to evaluate current programming and search for cost-effective solutions to additional educational demands and mandates. The ability to generate support from local agencies and higher education, including both the University of Akron and Kent State University, to explore and develop innovative programs continues to be a core strategy. The six member districts are committed to the continued effort to control expenses while providing exceptional programming.

**Contacting the Compact's Financial Management**

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Compact's finances and to show the Compact's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative/Fiscal Agent for the Six District Educational Compact, 2386 Hudson-Aurora Road, Hudson, Ohio 44236.

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**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY**

STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2012

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 134,624
Total assets . . . . .	134,624
<b>Net cash assets:</b>	
Restricted for:	
Locally funded programs . . . . .	32,908
Unrestricted . . . . .	101,716
Total net cash assets. . . . .	\$ 134,624

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY**

STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<b>Program Cash Receipts</b>			<b>Net (Cash Disbursements) Cash Receipts and Changes in Net Assets</b>
	<b>Cash Disbursements</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>
<b>Governmental activities:</b>				
Current:				
Instruction:				
Regular . . . . .	\$ 6,100	\$ 4,104	\$ 772	\$ (1,224)
Vocational . . . . .	642,865	642,865	-	-
Other . . . . .	1,179	793	149	(237)
Support services:				
Pupil . . . . .	132,261	9,452	112,691	(10,118)
Instructional staff . . . . .	256,650	266,391	1,166	10,907
Central . . . . .	17,511	-	20,402	2,891
Extracurricular activities . . . . .	2,500	-	2,913	413
Pass-through . . . . .	173,975	3,244	159,315	(11,416)
Totals. . . . .	\$ 1,233,041	\$ 926,849	\$ 297,408	(8,784)
				(8,784)
				143,408
				\$ 134,624

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY**

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	<b>General</b>	<b>Other Local Grants</b>	<b>Vocational Education Grants</b>	<b>Total Governmental Funds</b>
<b>Cash assets:</b>				
Equity in pooled cash and cash equivalents . .	\$ 113,266	\$ 32,908	\$ (11,550)	\$ 134,624
Total assets . . . . .	<u>\$ 113,266</u>	<u>\$ 32,908</u>	<u>\$ (11,550)</u>	<u>\$ 134,624</u>
<b>Fund cash balances (deficit):</b>				
Restricted:				
Other purposes . . . . .	\$ -	\$ 32,908	\$ -	\$ 32,908
Assigned:				
Student and staff support . . . . .	45,793	-	-	45,793
Unassigned (deficit) . . . . .	<u>67,473</u>	<u>-</u>	<u>(11,550)</u>	<u>55,923</u>
Total fund cash balances (deficit). . . . .	<u>\$ 113,266</u>	<u>\$ 32,908</u>	<u>\$ (11,550)</u>	<u>\$ 134,624</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES  
GOVERNMENTAL FUNDS

	<u>General</u>	<u>Other Local Grants</u>	<u>Vocational Education Grants</u>	<u>Total Governmental Funds</u>
<b>Cash receipts:</b>				
From local sources:				
Classroom materials and fees . . . . .	\$ 5,345	\$ -	\$ -	\$ 5,345
Charges for services . . . . .	921,504	-	-	921,504
Contributions and donations . . . . .	4,476	23,315	-	27,791
Intergovernmental - federal . . . . .	-	-	269,617	269,617
Total cash receipts. . . . .	<u>931,325</u>	<u>23,315</u>	<u>269,617</u>	<u>1,224,257</u>
<b>Cash disbursements:</b>				
Current:				
Regular . . . . .	6,100	-	-	6,100
Vocational . . . . .	642,865	-	-	642,865
Other . . . . .	1,179	-	-	1,179
Support services:				
Pupil . . . . .	14,047	-	118,214	132,261
Instructional staff . . . . .	256,650	-	-	256,650
Central . . . . .	-	17,511	-	17,511
Extracurricular activities . . . . .	-	2,500	-	2,500
Pass-through. . . . .	4,821	-	169,154	173,975
Total cash disbursements . . . . .	<u>925,662</u>	<u>20,011</u>	<u>287,368</u>	<u>1,233,041</u>
Excess (deficiency) of cash receipts over (under) cash disbursements . . . . .	5,663	3,304	(17,751)	(8,784)
<b>Fund cash balances at beginning of year . . . . .</b>	<u>107,603</u>	<u>29,604</u>	<u>6,201</u>	<u>143,408</u>
<b>Fund cash balances (deficit) at end of year . . . . .</b>	<u>\$ 113,266</u>	<u>\$ 32,908</u>	<u>\$ (11,550)</u>	<u>\$ 134,624</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Entity**

The Six District Educational Compact, Summit County, (the "Compact") is a body politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution of the State of Ohio. The Compact began operating as a Regional Council of Governments effective July 1, 1998, as defined by Chapter 167 of the Ohio Revised Code.

The Compact is a jointly governed organization consisting of six participating school districts: Cuyahoga Falls City School District, Hudson City School District, Kent City School District, Stow-Munroe Falls City School District, Tallmadge City School District and Woodridge Local School District, to provide for the vocational and special education needs of their students. Students residing in any of these districts may attend any vocational or special education class offered by any of the six individual school districts; the school district of residence pays an instructional fee to the school district that offers the class. All cash receipts are generated from charges for services and operating grants and contributions.

The Compact operates under the direction of a six member executive committee that is comprised of the superintendent from each of the participating school districts. The committee exercises total control over the operation of the Compact, including contracting and designating management. The Compact is not required to budget in accordance with the Ohio Revised Code, and its Board has also not adopted a budget. The Treasurer of Hudson City School District administers the grants, tuition reimbursement operations of the Compact and the administrative operations of the Compact. The executive director of the Compact is an employee of Hudson City School District, but her salary is reimbursed to the Hudson City School District by the Compact.

The Compact provides a permanent forum for discussion and study of problems of mutual interest and concern to its member school districts, and develops policies and action recommendations for implementation either by the Compact itself, or by one or more of its member school districts.

**B. 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 Compact. For the Compact, this includes general operations and student instruction activities.

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

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Based upon the application of these criteria, the Compact has no component units. The basic financial statements of the reporting entity include only those of the Compact (the primary government).

**C. Basis of Accounting**

The Compact chooses to prepare its financial statements and notes on the basis of cash receipts and disbursements (cash basis). The cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**D. Fund Accounting**

The Compact uses funds to maintain its financial records during the year. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts. The Compact classifies each fund as governmental, proprietary or fiduciary. The Compact reports only governmental funds.

**Governmental Funds** - The Compact classifies funds financed primarily from intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the Compact's major governmental funds:

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

Other local grants fund - This fund is used to account for local grants that are legally restricted to expenditures for specific purposes.

Vocational education grants fund - This fund is used to account for federal money passed through the Ohio Department of Education for vocational educational classes.

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

Government-wide Statement of Activities - Cash Basis - This statement displays information about the Compact as a whole. The government-wide statement of activities - cash basis compares disbursements with program receipts for each function or program of the Compact's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the 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. Receipts which are not classified as program receipts are presented as general receipts of the Compact. The Compact has no general receipts. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the cash basis.

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Fund Financial Statements - Fund financial statements report detailed information about the Compact. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

**F. Administrative/Fiscal Agent**

The Compact designates an Administrative Agent for all funds received in the name of the Compact. The Hudson City School District acts as the Administrative and Fiscal Agent. The Compact's funds are maintained in separate funds with the fiscal agent.

**G. Cash and Investments**

The Compact's fiscal agent is the custodian for the Compact's cash and investments. The fiscal agent maintains a cash and investment pool used for all of the fiscal agent's funds, including those of the Compact. Deposits and investments are made in accordance with the Ohio Revised Code and are valued at the fiscal agent's carrying amount.

**H. Capital Assets**

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

**I. Accumulated Leave**

In certain circumstances, such as leaving employment or retirement, employees are entitled to cash payouts for unused leave. The financial statements do not include a liability for unpaid leave.

**J. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Compact 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.

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 Compact's executive committee (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the executive committee 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.

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the Compact 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 Compact's executive committee, which includes giving the Administrative/Fiscal Agent the authority to constrain monies for intended purposes.

*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 Compact applies restricted resources first when disbursements 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**K. Net Assets**

Net assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The Compact applies restricted resources first when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

**NOTE 2 - EQUITY IN POOLED CASH**

The Hudson City School District, as fiscal agent for the Compact, maintains a depository which includes the funds of the Compact. The Ohio Revised Code prescribes allowable deposits and investments. The Compact's carrying amount of cash on deposit with the fiscal agent at June 30, 2012 was \$134,624. The fiscal agent for the Compact is responsible for maintaining adequate depository collateral for all funds in the Hudson City School District's investment accounts.

**NOTE 3 - PENSION PLANS**

**A. School Employees Retirement System**

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



**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 3 - PENSION PLANS - (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Compact is required to contribute at an actuarially determined rate. The current Compact rate is 14 percent of annual covered payroll. A portion of the Compact's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Compact's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$4,929, \$4,795 and \$5,231, respectively.

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

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

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

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

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Compact 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.

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 3 - PENSION PLANS - (Continued)**

The Compact's required contributions for pension obligations to STRS Ohio were \$12,020 for each of the fiscal years ended June 30, 2012, 2011 and 2010.

**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, 2012, certain members of the executive committee have elected Social Security. The Compact's liability is 6.2 percent of wages paid.

**NOTE 4 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The Compact participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 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 2012, 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.

**SIX DISTRICT EDUCATIONAL COMPACT  
SUMMIT COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 4 - POSTEMPLOYMENT BENEFITS - (Continued)**

The Compact's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$213, \$581 and \$188, respectively.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Compact's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$291, \$309 and \$311, respectively.

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

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Compact's contributions for health care for each of the fiscal years ended June 30, 2012, 2011 and 2010 were \$925.

**NOTE 5 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The Compact is involved in no material litigation as either plaintiff or defendant.

**NOTE 6 - RISK MANAGEMENT**

The Compact maintains comprehensive commercial insurance coverage for risks related to property loss or damage and general liability, through Hudson City School District. Settled claims have not exceeded this commercial coverage in any of the last three fiscal years. There has not been a significant reduction in this coverage from the prior fiscal year.

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# Dave Yost • Auditor of State

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

Six District Educational Compact  
Summit County  
2386 Hudson-Aurora Road  
Hudson, Ohio 44236

To the Executive Committee:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities and each major fund of Six District Educational Compact, Summit County, (the Compact) as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the Compact's basic financial statements and have issued our report thereon dated October 25, 2013, wherein we noted the Compact uses a special purpose framework other than generally accepted accounting principles.

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

As part of our financial statement audit, we considered the Compact's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Compact'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 Compact'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 Compact'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 Compact's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Compact's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

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

October 25, 2013



# Dave Yost • Auditor of State

## SIX DISTRICT EDUCATIONAL COMPACT

### 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