



Dave Yost • Auditor of State



**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Stark County Educational Service Center  
Stark County  
2100 38<sup>th</sup> Street NW  
Canton, Ohio 44709

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stark County Educational Service Center, Stark County, Ohio (the Service Center), as of and for the year ended June 30, 2012, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Investment Trust Fund which represents 96 percent of the assets, for the remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Service Center, is based on the report of the other auditors.

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 Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Stark County Educational Service Center, Stark County, Ohio, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012, on our consideration of the Service 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*. You should read it in conjunction with this report 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, 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 other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Service Center's basic financial statements taken as a whole. The budgetary comparison for the general fund provides additional analysis and is not a required part of the basic financial statements. The federal awards expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates 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 the 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 taken as a whole.



**Dave Yost**  
Auditor of State

December 21, 2012

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

The management's discussion and analysis of the Stark 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, 2012. 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 2012 are as follows:

- In total, net assets of governmental activities decreased \$293,553, which represents a 13.80% decrease from 2011.
- General revenues accounted for \$3,156,853 in revenue or 16.54% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$15,931,231 or 83.46% of total revenues of \$19,088,084.
- The ESC had \$19,381,637 in expenses related to governmental activities; \$15,931,231 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$3,156,853 were not adequate to provide for these programs.
- The ESC has one major governmental fund, the general fund. The general fund had \$16,459,174 in revenues and other financing sources and \$16,471,570 in expenditures. During fiscal 2012, the general fund's fund balance decreased \$12,396 from \$145,463 to a balance of \$133,067.

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

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 is by far the most significant fund, and the only governmental fund reported as a major fund.

**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 2012?" 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.

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

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 increased or decreased services desired by school districts, state budget cuts, 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, and other operations.

The ESC's statement of net assets and statement of activities can be found on pages 13-14 of this report.

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

***Fund Financial Statements***

The analysis of the ESC's major governmental fund begins on page 9. Fund financial reports provide detailed information about the ESC's major fund. 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 fund is the general 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 that 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 15-18 of this report.

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

The ESC is the fiscal agent of the area A-site, Stark/Portage Area Computer Consortium ("SPARCC"), the Stark County Schools Council of Government and the Stark County Family Council. This activity is presented as fiduciary funds. The ESC also maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary net assets on page 19. The investment trust fund activities for fiscal 2012 are also reported in a separate statement of changes in fiduciary net assets on page 20. 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 21-43 of this report.



**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

**The ESC as a Whole**

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 for 2012 and 2011.

|                               | <b>Net Assets</b>          |                            |
|-------------------------------|----------------------------|----------------------------|
|                               | Governmental<br>Activities | Governmental<br>Activities |
|                               | <u>2012</u>                | <u>2011</u>                |
| <b><u>Assets</u></b>          |                            |                            |
| Current and other assets      | \$ 4,067,751               | \$ 4,266,245               |
| Capital assets, net           | <u>1,333,081</u>           | <u>1,396,556</u>           |
| Total assets                  | <u>5,400,832</u>           | <u>5,662,801</u>           |
| <b><u>Liabilities</u></b>     |                            |                            |
| Current liabilities           | 2,556,063                  | 2,603,519                  |
| Long-term liabilities         | <u>1,011,551</u>           | <u>932,511</u>             |
| Total liabilities             | <u>3,567,614</u>           | <u>3,536,030</u>           |
| <b><u>Net assets</u></b>      |                            |                            |
| Invested in capital<br>assets | 1,333,081                  | 1,396,556                  |
| Restricted                    | 216,782                    | 383,290                    |
| Unrestricted                  | <u>283,355</u>             | <u>346,925</u>             |
| Total net assets              | <u>\$ 1,833,218</u>        | <u>\$ 2,126,771</u>        |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the ESC's assets exceeded liabilities by \$1,833,218. Of this total, \$283,355 is unrestricted in use.

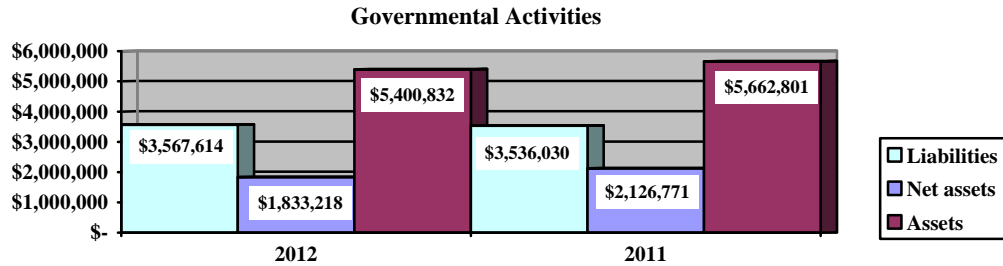
At year-end, capital assets represented 24.68% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets at June 30, 2012 were \$1,333,081. These capital assets are used to provide the ESC's services and are not available for future spending.

A portion of the ESC's net assets, \$216,782, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$283,355 may be used to meet the ESC's ongoing obligations to the students and creditors.

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

The graph below presents the ESC's assets, liabilities and net assets at June 30, 2012 and 2011.



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

**Change in Net Assets**

|                                    | Governmental<br>Activities<br><u>2012</u> | Governmental<br>Activities<br><u>2011</u> |
|------------------------------------|---|---|
| <b><u>Revenues</u></b>             |   |   |
| Program revenues:                  |   |   |
| Charges for services and sales     | \$ 13,400,870                             | \$ 13,006,647                             |
| Operating grants and contributions | 2,530,361                                 | 3,341,374                                 |
| General revenues:                  |   |   |
| Grants and entitlements            | 3,092,813                                 | 3,305,200                                 |
| Investment earnings                | 22,945                                    | 19,104                                    |
| Other                              | <u>41,095</u>                             | <u>61,203</u>                             |
| Total revenues                     | <u>19,088,084</u>                         | <u>19,733,528</u>                         |

- - Continued

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

**Change in Net Assets (Continued)**

|  | Governmental<br>Activities<br><u>2012</u> | Governmental<br>Activities<br><u>2011</u> |
|--|---|---|
| <b><u>Expenses</u></b>                   |   |   |
| Program expenses:                        |   |   |
| Instruction:                             |   |   |
| Regular                                  | \$ 115,075                                | \$ 87,778                                 |
| Special                                  | 4,993,771                                 | 4,876,351                                 |
| Support services:                        |   |   |
| Pupil                                    | 3,239,159                                 | 3,372,218                                 |
| Instructional staff                      | 6,382,235                                 | 6,476,549                                 |
| Board of education                       | 22,457                                    | 6,452                                     |
| Administration                           | 3,163,832                                 | 3,567,349                                 |
| Fiscal                                   | 450,733                                   | 466,695                                   |
| Business                                 | 692,988                                   | 649,352                                   |
| Operations and maintenance               | 214,787                                   | 570,406                                   |
| Pupil transportation                     | -   | 68,680                                    |
| Central                                  | 46,726                                    | 120,604                                   |
| Operations of non-instructional services | 20,000                                    | -   |
| Food service operations                  | <u>39,874</u>                             | <u>32,556</u>                             |
| Total expenses                           | <u>19,381,637</u>                         | <u>20,294,990</u>                         |
| Change in net assets                     | (293,553)                                 | (561,462)                                 |
| Net assets at beginning of year          | <u>2,126,771</u>                          | <u>2,688,233</u>                          |
| Net assets at end of year                | <u>\$ 1,833,218</u>                       | <u>\$ 2,126,771</u>                       |

**Governmental Activities**

Net assets of the ESC's governmental activities decreased \$293,553. Total governmental expenses of \$19,381,637 were offset by program revenues of \$15,931,231 and general revenues of \$3,156,853. Program revenues supported 82.20% of the total governmental expenses.

Governmental activities revenue decreased approximately \$645,000. This is primarily due to the end of Federal Stimulus grants, which resulted in the ESC receiving less in operating grants and contributions revenue in 2012, as compared to fiscal year 2011. The ESC also received approximately \$212,000 less in unrestricted grants and entitlements from the State.

In order to make up for the decreases in operating grants and contributions and unrestricted grants and entitlements, the ESC cut expenses by approximately \$913,000.

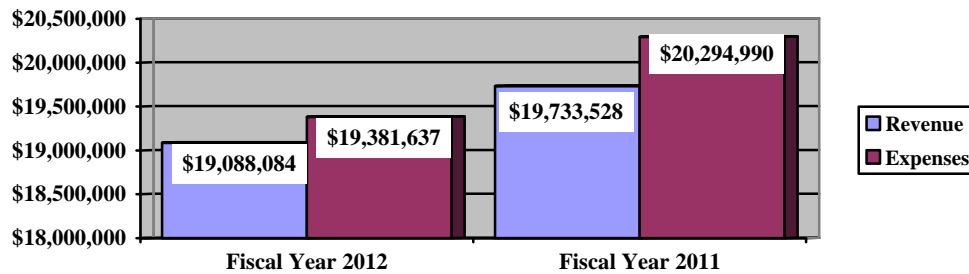
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 70.21% of total governmental revenue.

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2012 and 2011.

**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 unrestricted State grants and entitlements, and other general revenues not restricted to a specific program.

**Governmental Activities**

|  | Total Cost of<br>Services<br>2012 | Net Cost of<br>Services<br>2012 | Total Cost of<br>Services<br>2011 | Net Cost of<br>Services<br>2011 |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| <b>Program expenses</b>                  |                                   |                                 |                                   |                                 |
| Instruction:                             |                                   |                                 |                                   |                                 |
| Regular                                  | \$ 115,075                        | \$ 62,384                       | \$ 87,778                         | \$ (1,535)                      |
| Special                                  | 4,993,771                         | 771,269                         | 4,876,351                         | 862,395                         |
| Support services:                        |                                   |                                 |                                   |                                 |
| Pupil                                    | 3,239,159                         | 498,826                         | 3,372,218                         | 602,140                         |
| Instructional staff                      | 6,382,235                         | 672,031                         | 6,476,549                         | 838,062                         |
| Board of education                       | 22,457                            | 22,457                          | 6,452                             | 6,452                           |
| Administration                           | 3,163,832                         | 498,458                         | 3,567,349                         | 719,799                         |
| Fiscal                                   | 450,733                           | 262,360                         | 466,695                           | 278,482                         |
| Business                                 | 692,988                           | 450,142                         | 649,352                           | 417,309                         |
| Operations and maintenance               | 214,787                           | 167,132                         | 570,406                           | 94,886                          |
| Pupil transportation                     | -                                 | -                               | 68,680                            | 8,415                           |
| Central                                  | 46,726                            | 46,726                          | 120,604                           | 120,604                         |
| Operations of non-instructional services | 20,000                            | -                               | -                                 | -                               |
| Food service operations                  | 39,874                            | (1,379)                         | 32,556                            | (40)                            |
| <b>Total</b>                             | <u>\$ 19,381,637</u>              | <u>\$ 3,450,406</u>             | <u>\$ 20,294,990</u>              | <u>\$ 3,946,969</u>             |

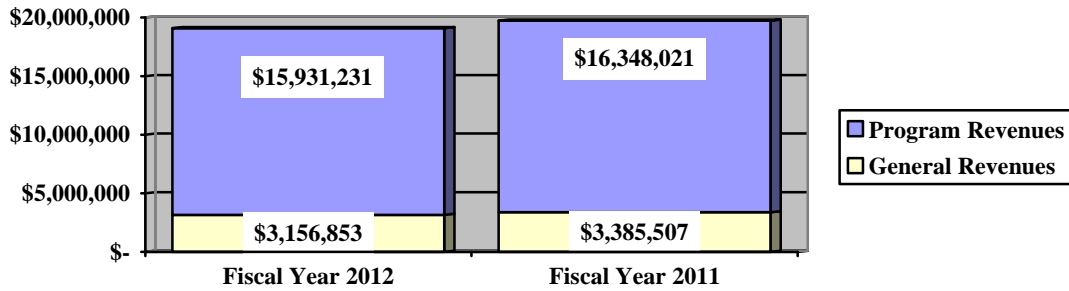
For all governmental activities, program revenue support is 82.20%. The primary support of the ESC is contracted fees for services provided to other districts.

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

The graph below presents the ESC's governmental activities revenue for fiscal years 2012 and 2011.

**Governmental Activities - General and Program Revenues**



**The ESC's Funds**

The ESC's governmental funds (as presented on page 15) reported a combined fund balance of \$250,768, which is less than last year's balance of \$337,322. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

|                    | <u>Fund Balance</u><br><u>June 30, 2012</u> | <u>Fund Balance</u><br><u>June 30, 2011</u> | <u>Decrease</u>    |
|--------------------|---|---|--------------------|
| <b>Major Fund:</b> |   |   |                    |
| General            | \$ 133,067                                  | \$ 145,463                                  | \$ (12,396)        |
| Other governmental | <u>117,701</u>                              | <u>191,859</u>                              | <u>(74,158)</u>    |
| <b>Total</b>       | <u>\$ 250,768</u>                           | <u>\$ 337,322</u>                           | <u>\$ (86,554)</u> |

**General Fund**

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

|                                     | <u>2012</u><br><u>Amount</u> | <u>2011</u><br><u>Amount</u> | <u>Percentage</u><br><u>Change</u> |
|-------------------------------------|------------------------------|------------------------------|------------------------------------|
| <b><u>Revenues</u></b>              |                              |                              |                                    |
| Tuition                             | \$ 8,146,418                 | \$ 8,046,378                 | 1.24 %                             |
| Services provided to other entities | 4,984,061                    | 5,339,458                    | (6.66) %                           |
| Earnings on investments             | 23,711                       | 17,403                       | 36.25 %                            |
| Intergovernmental                   | 3,092,813                    | 3,305,199                    | (6.43) %                           |
| Other revenues                      | <u>212,061</u>               | <u>267,365</u>               | (20.68) %                          |
| <b>Total</b>                        | <u>\$ 16,459,064</u>         | <u>\$ 16,975,803</u>         | (3.04) %                           |
| <b><u>Expenditures</u></b>          |                              |                              |                                    |
| Instruction                         | \$ 4,799,315                 | \$ 4,628,122                 | 3.70 %                             |
| Support services                    | <u>11,672,255</u>            | <u>12,026,647</u>            | (2.95) %                           |
| <b>Total</b>                        | <u>\$ 16,471,570</u>         | <u>\$ 16,654,769</u>         | (1.10) %                           |

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

The general fund's revenues decreased approximately \$517,000 from the prior fiscal year. This decrease is mainly due to the decrease in funding received from the State. Also, there is an increase of approximately \$242,000 in services provided to other entities that is due to the ESC outside the available period. This amount is not recorded as revenue under the modified accrual basis of accounting, which primarily accounts for the decrease in services provided to other entities revenue reported in the general fund. The ESC has continued to try to increase the revenue it receives from tuition and services provided to other entities as revenue from the State is expected to decrease over the next several years. The decrease in revenue has caused a corresponding decrease in expenditures, as the ESC has had to make cuts in order to offset the decrease in revenue.

**Capital Assets**

At the end of fiscal 2012, the ESC had \$1,333,081 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2012 balances compared to 2011.

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

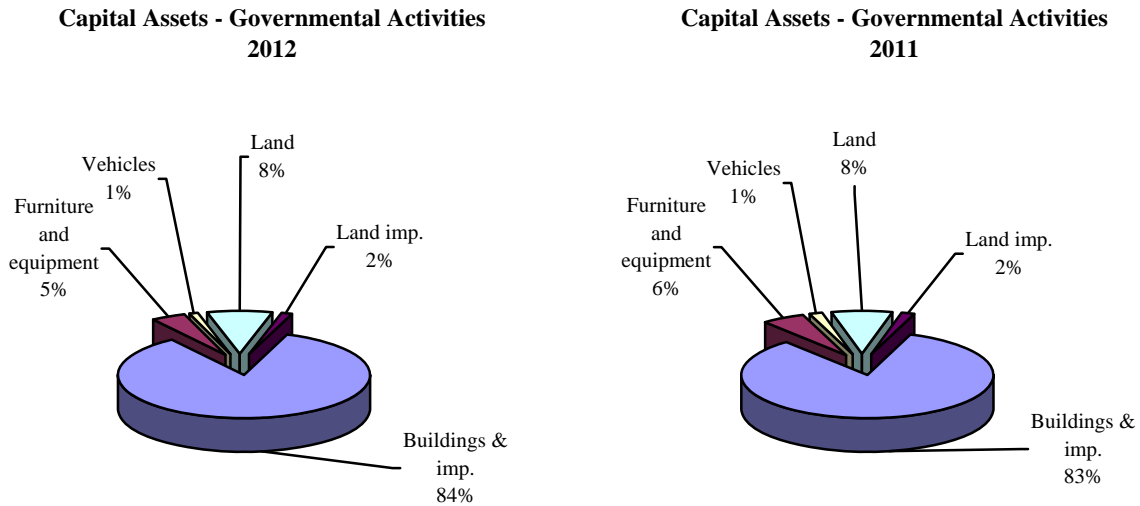
|                            | Governmental Activities |                     |
|----------------------------|-------------------------|---------------------|
|                            | 2012                    | 2011                |
| Land                       | \$ 111,059              | \$ 111,059          |
| Land improvements          | 20,192                  | 22,742              |
| Buildings and improvements | 1,127,896               | 1,164,215           |
| Furniture and equipment    | 62,333                  | 77,553              |
| Vehicles                   | 11,601                  | 20,987              |
| Total                      | <u>\$ 1,333,081</u>     | <u>\$ 1,396,556</u> |

Total additions to capital assets for 2012 were \$12,481. A total of \$75,956 in depreciation expense was recognized for fiscal 2012.

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

The graphs below present the ESC's capital assets for fiscal 2012 and fiscal 2011. See Note 7 to the basic financial statements for additional information on the ESC's capital assets.



**Current Financial Related Activities**

The ESC, along with the majority of the school districts in Ohio, continues to be challenged to provide a high level of services with declining revenues. As the preceding information shows, the ESC relies heavily on contracts with local, city, and joint vocational school districts in Stark County, as well as State Foundation revenue and grants. The need for additional services from local and city school districts, along with the ESC's cash balance, will provide the ESC with the necessary funds to meet its operating expenses in fiscal year 2012. However, the future financial stability of the ESC is not without concerns.

In fiscal year 2012, every ESC in Ohio was subject to a reduction of approximately 10% of the annual funding provided by the State. This represented an approximate reduction of \$225,000. Additional reductions in the State's budget directly affected the ESC and the schools that it serves.

Declining enrollment in Stark County also remains a concern of the ESC. State funding is based on average daily membership of Stark County school districts. Continued decline in enrollment will have a direct impact on State revenues received by Stark County school districts and the amount of services they will need from the ESC.

Each year, additional services are needed by Stark County school districts. Therefore, the ESC is constantly reviewing their program activity to provide services while maintaining a financially solvent operation.

The ESC's systems of internal control and procedures are reviewed throughout the year to insure a cost efficient operation.

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

**Contacting the ESC's Financial Management**

This financial report is designed to provide the citizens, school districts, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Jeff Bartholomew, Treasurer, Stark County ESC, 2100 38<sup>th</sup> Street N.W., Canton, Ohio 44709-2300 or by calling (330) 492-8136.



**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2012

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| <b>Assets:</b>                                 |                                    |
| Equity in pooled cash and investments. . . . . | \$ 1,410,395                       |
| Receivables:                                   |                                    |
| Accounts . . . . .                             | 2,271,573                          |
| Intergovernmental . . . . .                    | 376,052                            |
| Accrued interest . . . . .                     | 4,105                              |
| Prepayments . . . . .                          | 5,626                              |
| Capital assets:                                |                                    |
| Land. . . . .                                  | 111,059                            |
| Depreciable capital assets, net . . . . .      | 1,222,022                          |
| Total capital assets, net. . . . .             | <u>1,333,081</u>                   |
| <br>Total assets. . . . .                      | <br><u>5,400,832</u>               |
| <b>Liabilities:</b>                            |                                    |
| Accounts payable. . . . .                      | 99,602                             |
| Accrued wages and benefits . . . . .           | 2,052,258                          |
| Pension obligation payable. . . . .            | 313,164                            |
| Intergovernmental payable . . . . .            | 91,039                             |
| Long-term liabilities:                         |                                    |
| Due within one year. . . . .                   | 66,815                             |
| Due in more than one year. . . . .             | 944,736                            |
| <br>Total liabilities . . . . .                | <br><u>3,567,614</u>               |
| <b>Net assets:</b>                             |                                    |
| Invested in capital assets . . . . .           | 1,333,081                          |
| Restricted for:                                |                                    |
| Locally funded programs . . . . .              | 74,647                             |
| State funded programs. . . . .                 | 79,658                             |
| Federally funded programs . . . . .            | 34,024                             |
| Other purposes . . . . .                       | 28,453                             |
| Unrestricted . . . . .                         | <u>283,355</u>                     |
| <br>Total net assets . . . . .                 | <br><u>\$ 1,833,218</u>            |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

|   |                 | <b>Program Revenues</b>                   |   | <b>Net (Expense)<br/>Revenue and<br/>Changes in<br/>Net Assets</b> |
|---|-----------------|---|---|--|
|   | <b>Expenses</b> | <b>Charges for<br/>Services and Sales</b> | <b>Operating Grants<br/>and Contributions</b> | <b>Governmental<br/>Activities</b>                                 |
| <b>Governmental activities:</b>                 |                 |   |   |  |
| Instruction:                                    |                 |   |   |  |
| Regular . . . . .                               | \$ 115,075      | \$ -                                      | \$ 52,691                                     | \$ (62,384)  |
| Special . . . . .                               | 4,993,771       | 4,075,894                                 | 146,608                                       | (771,269)  |
| Support services:                               |                 |   |   |  |
| Pupil . . . . .                                 | 3,239,159       | 2,512,120                                 | 228,213                                       | (498,826)  |
| Instructional staff . . . . .                   | 6,382,235       | 3,801,083                                 | 1,909,121                                     | (672,031)  |
| Board of education . . . . .                    | 22,457          | -   | -   | (22,457)   |
| Administration . . . . .                        | 3,163,832       | 2,600,176                                 | 65,198  | (498,458)  |
| Fiscal . . . . .                                | 450,733         | 120,373                                   | 68,000  | (262,360)  |
| Business . . . . .                              | 692,988         | 242,846                                   | -   | (450,142)  |
| Operations and maintenance . . . . .            | 214,787         | 26,598                                    | 21,057  | (167,132)  |
| Central . . . . .                               | 46,726          | -   | -   | (46,726)   |
| Operation of non-instructional services:        |                 |   |   |  |
| Other non-instructional services . . . . .      | 20,000          | -   | 20,000  | -  |
| Food service operations . . . . .               | 39,874          | 21,780                                    | 19,473  | 1,379  |
| Totals . . . . .                                | \$ 19,381,637   | \$ 13,400,870                             | \$ 2,530,361                                  | (3,450,406)  |
| <b>General revenues:</b>                        |                 |   |   |  |
| Grants and entitlements not restricted          |                 |   |   |  |
| to specific programs . . . . .                  |                 |   |   |  |
|   |                 |   |   | 3,092,813  |
| Investment earnings . . . . .                   |                 |   |   | 22,945   |
| Miscellaneous . . . . .                         |                 |   |   | 41,095   |
| Total general revenues . . . . .                |                 |   |   | 3,156,853  |
| Change in net assets. . . . .                   |                 |   |   | (293,553)  |
| <b>Net assets at beginning of year. . . . .</b> |                 |   |   | <b>2,126,771</b>   |
| <b>Net assets at end of year . . . . .</b>      |                 |   |   | <b>\$ 1,833,218</b>  |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

|   | <u>General</u>      | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|---------------------|---|---|
| <b>Assets:</b>                                    |                     |   |   |
| Equity in pooled cash<br>and investments. . . . . | \$ 1,189,760        | \$ 220,635                              | \$ 1,410,395                            |
| Receivables:                                      |                     |   |   |
| Accounts . . . . .                                | 2,271,573           | -                                       | 2,271,573                               |
| Intergovernmental. . . . .                        | 12,334              | 363,718                                 | 376,052                                 |
| Accrued interest . . . . .                        | 4,105               | -                                       | 4,105                                   |
| Interfund loans . . . . .                         | 114,697             | -                                       | 114,697                                 |
| Prepayments. . . . .                              | 5,626               | -                                       | 5,626                                   |
| Total assets . . . . .                            | <u>\$ 3,598,095</u> | <u>\$ 584,353</u>                       | <u>\$ 4,182,448</u>                     |
| <b>Liabilities:</b>                               |                     |   |   |
| Accounts payable . . . . .                        | \$ 41,110           | \$ 58,492                               | \$ 99,602                               |
| Accrued wages and benefits. . . . .               | 1,923,179           | 129,079                                 | 2,052,258                               |
| Compensated absences payable . . . . .            | 7,092               | 27,001                                  | 34,093                                  |
| Pension obligation payable . . . . .              | 290,307             | 22,857                                  | 313,164                                 |
| Intergovernmental payable . . . . .               | 68,948              | 22,091                                  | 91,039                                  |
| Interfund loans payable. . . . .                  | -                   | 114,697                                 | 114,697                                 |
| Deferred revenue . . . . .                        | 1,134,392           | 92,435                                  | 1,226,827                               |
| Total liabilities. . . . .                        | <u>3,465,028</u>    | <u>466,652</u>                          | <u>3,931,680</u>                        |
| <b>Fund balances:</b>                             |                     |   |   |
| Nonspendable:                                     |                     |   |   |
| Prepays. . . . .                                  | 5,626               | -                                       | 5,626                                   |
| Restricted:                                       |                     |   |   |
| Food service operations . . . . .                 | -                   | 28,453                                  | 28,453                                  |
| Special education . . . . .                       | -                   | 267                                     | 267                                     |
| Other purposes. . . . .                           | -                   | 144,946                                 | 144,946                                 |
| Assigned:   |                     |   |   |
| Student instruction . . . . .                     | 9,580               | -                                       | 9,580                                   |
| Student and staff support. . . . .                | 53,197              | -                                       | 53,197                                  |
| Subsequent year's appropriations. . . . .         | 62,900              | -                                       | 62,900                                  |
| Other purposes. . . . .                           | 1,764               | -                                       | 1,764                                   |
| Unassigned (deficit) . . . . .                    | -                   | (55,965)                                | (55,965)                                |
| Total fund balances . . . . .                     | <u>133,067</u>      | <u>117,701</u>                          | <u>250,768</u>                          |
| Total liabilities and fund balances . . . . .     | <u>\$ 3,598,095</u> | <u>\$ 584,353</u>                       | <u>\$ 4,182,448</u>                     |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2012

|  |    |           |              |
|--|----|-----------|--------------|
| <b>Total governmental fund balances</b>  |    | \$        | 250,768      |
| <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.  |    |           | 1,333,081    |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. |    |           |              |
| Accounts receivable  | \$ | 1,133,442 |              |
| Accrued interest receivable  |    | 950       |              |
| Intergovernmental receivable   |    | 92,435    |              |
| Total  |    | 1,226,827 | 1,226,827    |
| Compensated absences are not due and payable in the current period and therefore are not reported in the funds.          |    |           | (977,458)    |
| <b>Net assets of governmental activities</b>   |    |           | \$ 1,833,218 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

|   | <u>General</u>    | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|-------------------|---|---|
| <b>Revenues:</b>                                    |                   |   |   |
| From local sources:                                 |                   |   |   |
| Tuition . . . . .                                   | \$ 8,146,418      | \$ -                                    | \$ 8,146,418                            |
| Contributions from private sources . . . . .        | 18,894            | -                                       | 18,894                                  |
| Earnings on investments . . . . .                   | 23,711            | 111                                     | 23,822                                  |
| Charges for services . . . . .                      | 1,693             | 20,087                                  | 21,780                                  |
| Services provided to other entities . . . . .       | 4,984,061         | -                                       | 4,984,061                               |
| Rental income . . . . .                             | 26,598            | -                                       | 26,598                                  |
| Other local revenues . . . . .                      | 164,876           | -                                       | 164,876                                 |
| Intergovernmental - intermediate . . . . .          | -                 | 181,928                                 | 181,928                                 |
| Intergovernmental - state . . . . .                 | 3,060,698         | 610,808                                 | 3,671,506                               |
| Intergovernmental - federal . . . . .               | 32,115            | 1,883,954                               | 1,916,069                               |
| Total revenues . . . . .                            | <u>16,459,064</u> | <u>2,696,888</u>                        | <u>19,155,952</u>                       |
| <b>Expenditures:</b>                                |                   |   |   |
| Current:  |                   |   |   |
| Instruction:  |                   |   |   |
| Regular . . . . .                                   | -                 | 110,366                                 | 110,366                                 |
| Special . . . . .                                   | 4,799,315         | 197,667                                 | 4,996,982                               |
| Support services:                                   |                   |   |   |
| Pupil . . . . .                                     | 2,957,990         | 188,209                                 | 3,146,199                               |
| Instructional staff . . . . .                       | 4,365,188         | 2,027,436                               | 6,392,624                               |
| Board of education . . . . .                        | 22,457            | -                                       | 22,457                                  |
| Administration . . . . .                            | 3,061,675         | 74,722                                  | 3,136,397                               |
| Fiscal . . . . .                                    | 373,857           | 74,739                                  | 448,596                                 |
| Business . . . . .                                  | 672,117           | -                                       | 672,117                                 |
| Operations and maintenance . . . . .                | 178,887           | 38,033                                  | 216,920                                 |
| Central . . . . .                                   | 40,084            | -                                       | 40,084                                  |
| Operation of non-instructional services:            |                   |   |   |
| Other non-instructional services . . . . .          | -                 | 20,000                                  | 20,000                                  |
| Food service operations . . . . .                   | -                 | 39,874                                  | 39,874                                  |
| Total expenditures . . . . .                        | <u>16,471,570</u> | <u>2,771,046</u>                        | <u>19,242,616</u>                       |
| Excess of expenditures over revenues . . . . .      | <u>(12,506)</u>   | <u>(74,158)</u>                         | <u>(86,664)</u>                         |
| <b>Other financing sources:</b>                     |                   |   |   |
| Sale of capital assets . . . . .                    | 110               | -                                       | 110                                     |
| Total other financing sources . . . . .             | <u>110</u>        | <u>-</u>                                | <u>110</u>                              |
| Net change in fund balances . . . . .               | (12,396)          | (74,158)                                | (86,554)                                |
| <b>Fund balances at beginning of year . . . . .</b> | <u>145,463</u>    | <u>191,859</u>                          | <u>337,322</u>                          |
| <b>Fund balances at end of year . . . . .</b>       | <u>\$ 133,067</u> | <u>\$ 117,701</u>                       | <u>\$ 250,768</u>                       |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK 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, 2012

**Net change in fund balances - total governmental funds** \$ (86,554)

*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   | \$ | 12,481   |          |
| Current year depreciation |    | (75,956) |          |
| Total                     |    |          | (63,475) |

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

|                                     |  |           |          |
|-------------------------------------|--|-----------|----------|
| Tuition                             |  | (139,960) |          |
| Earnings on investments             |  | (766)     |          |
| Services provided to other entities |  | 241,655   |          |
| Other local revenues                |  | (22,467)  |          |
| Intergovernmental                   |  | (146,440) |          |
| Total                               |  |           | (67,978) |

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

(75,546)

**Change in net assets of governmental activities** \$ (293,553)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2012

|  | <u>Investment<br/>Trust</u> | <u>Agency</u>       |
|--|-----------------------------|---------------------|
| <b>Assets:</b>                                       |                             |                     |
| Equity in pooled cash                                |                             |                     |
| and investments . . . . .                            | \$ 87,286,448               | \$ 3,081,819        |
| Receivables:   |                             |                     |
| Accounts . . . . .                                   | -                           | 153,674             |
| Intergovernmental . . . . .                          | -                           | 2,008               |
| Accrued interest . . . . .                           | 111,121                     | -                   |
|  | <u>87,397,569</u>           | <u>3,237,501</u>    |
| Total assets . . . . .                               | <u>87,397,569</u>           | <u>\$ 3,237,501</u> |
| <b>Liabilities:</b>                                  |                             |                     |
| Accounts payable . . . . .                           | -                           | \$ 137,982          |
| Accrued wages and benefits . . . . .                 | -                           | 164,702             |
| Pension obligation payable . . . . .                 | -                           | 47,405              |
| Intergovernmental payable . . . . .                  | -                           | 2,843,586           |
| Due to students . . . . .                            | -                           | 43,826              |
|  | <u>-</u>                    | <u>3,237,501</u>    |
| Total liabilities . . . . .                          | <u>-</u>                    | <u>\$ 3,237,501</u> |
| <b>Net assets:</b>                                   |                             |                     |
| Net assets available for pool participants . . . . . | <u>87,397,569</u>           |                     |
| Total net assets . . . . .                           | <u>\$ 87,397,569</u>        |                     |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
INVESTMENT TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

|  | <b>Investment<br/>Trust</b> |
|--|-----------------------------|
| <b>Additions:</b>                                |                             |
| Interest. . . . .                                | \$ 825,864                  |
| <b>Deductions:</b>                               |                             |
| Capital transactions. . . . .                    | 2,705,922                   |
| Distributions to pool participants . . . . .     | 838,423                     |
| Total deductions. . . . .                        | 3,544,345                   |
| Change in net assets. . . . .                    | (2,718,481)                 |
| <b>Net assets at beginning of year . . . . .</b> | <b>90,116,050</b>           |
| <b>Net assets at end of year. . . . .</b>        | <b>\$ 87,397,569</b>        |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

**NOTE 1 - DESCRIPTION OF THE ESC**

The Stark County Educational Service Center (the “ESC”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed it by the constitution and laws of the State of Ohio. The Educational Service Center supplies supervisory, administrative and other needed services to participating school districts.

The Governing Board consists of 5 members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 253 non-certified employees and 154 certified employees to provide services to students throughout the County.

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

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC 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, component units and other organizations that are included to ensure that the basic financial statements of the ESC are not misleading. 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 have access to 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 no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government).

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

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

The ESC is fiscal agent for the Stark County Family 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 following organizations are described due to their relationship to the ESC:

*JOINTLY GOVERNED ORGANIZATIONS*

Stark-Portage Area Computer Consortium ("SPARCC") - SPARCC is a jointly governed organization which provides computer services to the school districts within the boundaries of Stark and Portage Counties. Each District's superintendent serves as a representative on the Board, which consists of approximately 31 member districts. However, SPARCC is primarily governed by a six-member Executive Board, which is made up of three representatives from Stark County, two from Portage County, and a Treasurer. The Board meets monthly to address any current issues.

Stark County Schools Council of Governments ("COG") - The COG is a group purchasing pool. The COG is governed by an Assembly which consists of one representative from each participating school district (usually the superintendent or designee). The Assembly elects officers for one year terms to serve as the Board of Directors. The Assembly exercises control over the operation of the COG. All COG revenues are generated from charges for services.

In the case of SPARCC and the COG, the ESC serves as fiscal agent and custodian but is not accountable; therefore the operations of SPARCC and the COG have been excluded from the ESC's financial statements but the funds held on behalf of SPARCC are included as an agency fund and the funds held on behalf of the COG are included as an investment trust fund.

*PUBLIC ENTITY RISK POOLS*

Stark County Schools Council of Governments Health Benefit Plan

The Stark County Schools Council of Governments Health Benefit Plan is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Health Benefits Plan is provided through the COG. The COG is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the council. All Health Benefits Plan revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

Stark County Schools Council of Governments Workers' Compensation Group Rating Plan

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the superintendents and the members who have been appointed by the respective governing body of each member.

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

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

The intent of the pool is to achieve a reduced rate for the ESC and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to CompManagement, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on its payroll percent of the group.

**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.

*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 is the ESC's major governmental fund:

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.

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

*PROPRIETARY FUNDS*

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

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's only trust fund is an investment trust fund which accounts for monies held by the ESC as fiscal agent for the COG. 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 and individuals.

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY, OHIO**

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

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

**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.

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.

The investment trust fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of fiduciary net assets. The statement of changes in fiduciary net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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.

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

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

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

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. Budgets**

Although not legally required, the ESC adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the ESC (which are apportioned by the State Department of Education to each local board of education under the supervision of the ESC), and Part (C) includes the adopted appropriation resolution.

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

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

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 is discretionary, the ESC continues 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 object level for the general fund and at the fund level for all other funds. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

**F. Cash and Investments**

To improve cash management, cash received by the ESC is pooled in a central bank account. Monies for all funds, including fiduciary 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 2012, investments were limited to federal agency securities, repurchase agreements, U.S. Government money market mutual funds and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State of Ohio to pool their funds for investment purposes. STAR Ohio is not registered with the 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, 2012.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2012 totaled \$23,711, which includes \$18,770 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.

**G. 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.

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

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC maintains a capitalization threshold of \$2,000. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land, 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<br/>Activities<br/>Estimated Lives</u> |
|---------------------------|--|
| Land improvements         | 30 years   |
| Building and improvements | 50 years   |
| Furniture and equipment   | 5 - 10 years   |
| Vehicles                  | 5 - 10 years   |

**H. Compensated Absences**

Compensated absences of the ESC consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if (a) the employees' rights to payment are attributable to services already rendered; and (b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and for all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2012 and reduced to the maximum payment allowed by labor contracts and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

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

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

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables and accrued liabilities from the fiduciary funds are reported on the fiduciary fund 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.

**J. 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.

*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 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 Governing Board, which includes giving the Treasurer 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.



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

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

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.

**K. Net Assets**

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

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

**L. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**M. 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.

**N. 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 basic financial statements. Interfund activities between governmental funds are eliminated in the statement of activities.

**O. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

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

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

**P. 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 2012.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2012, the ESC has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the ESC.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the ESC.

**B. Deficit Fund Balances**

Fund balances at June 30, 2012 included the following individual fund deficits:

| <u>Nonmajor funds</u>       | <u>Deficit</u> |
|-----------------------------|----------------|
| Public school preschool     | \$ 3,371       |
| Title VI-B                  | 29,201         |
| Title I                     | 152            |
| Misellaneous federal grants | 23,241         |

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 result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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 moneys 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 the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

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

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, 2012, the carrying amount of all ESC deposits was \$(667,237), exclusive of the \$14,235,000 in repurchase agreements included in investments below. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the “zero-balance” nature of the ESC’s bank accounts. The negative carrying amount of deposits is primarily due to the sweeping of money into overnight repurchase agreements, which are reported as “investments”. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2012, all of the ESC’s bank balance of \$3,602,088 was covered by the FDIC.

**B. Investments**

As of June 30, 2012, 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                               | \$ 16,606,760        | \$ 1,001,000          | \$ 1,769,985        | \$ 1,000,010        | \$ 250,055          | \$ 12,585,710          |
| FHLB                               | 9,790,046            | 1,003,065             | 1,770,502           | 2,018,159           | -                   | 4,998,320              |
| FHLMC                              | 17,053,760           | -                     | 1,003,610           | -                   | 1,001,190           | 15,048,960             |
| FNMA                               | 28,088,321           | 1,501,726             | -                   | 2,017,370           | -                   | 24,569,225             |
| STAR Ohio                          | 6,284,460            | 6,284,460             | -                   | -                   | -                   | -                      |
| Repurchase agreements              | 14,235,000           | 14,235,000            | -                   | -                   | -                   | -                      |
| U.S. Government money market funds | 387,552              | 387,552               | -                   | -                   | -                   | -                      |
|                                    | <u>\$ 92,445,899</u> | <u>\$ 24,412,803</u>  | <u>\$ 4,544,097</u> | <u>\$ 5,035,539</u> | <u>\$ 1,251,245</u> | <u>\$ 57,202,215</u>   |

The weighted average maturity of investments is 2.16 years.

*Interest Rate Risk:* Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. 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.

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

*Credit Risk:* The ESC's investments in federal agency securities and the federal agency securities that underlie the repurchase agreements were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and the U.S. Government money market funds an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The ESC's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

*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. Of the ESC's investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the ESC. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk:* The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2012:

| <u>Investment type</u>                | <u>Fair value</u>    | <u>% of total</u> |
|---------------------------------------|----------------------|-------------------|
| FFCB                                  | \$ 16,606,760        | 17.96             |
| FHLB                                  | 9,790,046            | 10.59             |
| FHLMC                                 | 17,053,760           | 18.45             |
| FNMA                                  | 28,088,321           | 30.38             |
| STAR Ohio                             | 6,284,460            | 6.80              |
| Repurchase agreements                 | 14,235,000           | 15.40             |
| U.S. Government money<br>market funds | 387,552              | 0.42              |
|                                       | <u>\$ 92,445,899</u> | <u>100.00</u>     |

**D. 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, 2012:

|                                      |                      |
|--------------------------------------|----------------------|
| <u>Cash and investments per note</u> |                      |
| Carrying amount of deposits          | \$ (667,237)         |
| Investments                          | <u>92,445,899</u>    |
| Total                                | <u>\$ 91,778,662</u> |

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

|   |                      |
|---|----------------------|
| <u>Cash and investments per statement of net assets</u> |                      |
| Governmental activities                                 | \$ 1,410,395         |
| Investment trust fund                                   | 87,286,448           |
| Agency funds  | <u>3,081,819</u>     |
| Total   | <u>\$ 91,778,662</u> |

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2012 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

| <u>Receivable fund</u> | <u>Payable fund</u>         | <u>Amount</u> |
|------------------------|-----------------------------|---------------|
| General                | Nonmajor governmental funds | \$ 114,697    |

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. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2012 consisted of accounts (billings to school districts for user charged services and tuition), intergovernmental grants and accrued interest. All receivables are considered collectible in full. A summary of the principal items of receivables reported in the statement of net assets follows:

|                                 |                     |
|---------------------------------|---------------------|
| <b>Governmental activities:</b> |                     |
| Accounts                        | \$ 2,271,573        |
| Intergovernmental               | 376,052             |
| Accrued interest                | <u>4,105</u>        |
| Total                           | <u>\$ 2,651,730</u> |

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

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

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

|   | <u>Balance</u><br><u>06/30/11</u> | <u>Additions</u>   | <u>Deductions</u> | <u>Balance</u><br><u>06/30/12</u> |
|---|-----------------------------------|--------------------|-------------------|-----------------------------------|
| <b>Governmental activities:</b>             |                                   |                    |                   |                                   |
| Land  | \$ 111,059                        | \$ -               | \$ -              | \$ 111,059                        |
| Total capital assets, not being depreciated | <u>111,059</u>                    | <u>-</u>           | <u>-</u>          | <u>111,059</u>                    |
| <i>Capital assets, being depreciated:</i>   |                                   |                    |                   |                                   |
| Land improvements                           | 76,515                            | -                  | -                 | 76,515                            |
| Buildings and improvements                  | 1,803,661                         | -                  | -                 | 1,803,661                         |
| Furniture and equipment                     | 852,920                           | 12,481             | (57,271)          | 808,130                           |
| Vehicles                                    | <u>122,967</u>                    | <u>-</u>           | <u>-</u>          | <u>122,967</u>                    |
| Total capital assets, being depreciated     | <u>2,856,063</u>                  | <u>12,481</u>      | <u>(57,271)</u>   | <u>2,811,273</u>                  |
| <i>Less: accumulated depreciation:</i>      |                                   |                    |                   |                                   |
| Land improvements                           | (53,773)                          | (2,550)            | -                 | (56,323)                          |
| Buildings and improvements                  | (639,446)                         | (36,319)           | -                 | (675,765)                         |
| Furniture and equipment                     | (775,367)                         | (27,701)           | 57,271            | (745,797)                         |
| Vehicles                                    | <u>(101,980)</u>                  | <u>(9,386)</u>     | <u>-</u>          | <u>(111,366)</u>                  |
| Total accumulated depreciation              | <u>(1,570,566)</u>                | <u>(75,956)</u>    | <u>57,271</u>     | <u>(1,589,251)</u>                |
| Governmental activities capital assets, net | <u>\$ 1,396,556</u>               | <u>\$ (63,475)</u> | <u>\$ -</u>       | <u>\$ 1,333,081</u>               |

Depreciation expense was charged to governmental functions as follows:

Instruction:

Special \$ 17,670

Support services:

Pupil 569  
Instructional staff 27,013  
Administration 11,585  
Fiscal 2,008  
Business 10,042  
Operations and maintenance 427  
Central 6,642

Total depreciation expense \$ 75,956

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

**NOTE 8 - LONG-TERM OBLIGATIONS**

During the fiscal year 2012, the following activity occurred in governmental activities long-term obligations:

|                      | Balance         |            |             | Balance         | Amounts         |
|----------------------|-----------------|------------|-------------|-----------------|-----------------|
|                      | <u>06/30/11</u> | Additions  | Reductions  | <u>06/30/12</u> | Due in          |
|                      |                 |            |             |                 | <u>One Year</u> |
| Compensated absences | \$ 932,511      | \$ 145,116 | \$ (66,076) | \$ 1,011,551    | \$ 66,815       |

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

**NOTE 9 - RISK MANAGEMENT**

**A. Comprehensive**

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. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

**B. Shared Risk Pool**

The ESC is a participant in the Stark County Schools Council of Governments (“COG”) for the purpose of obtaining benefits at a reduced premium for both health care and workers’ compensation.

The ESC’s insurance program for health care, through the COG, is administered by Mutual Health Services Company and Aultcare Corporation. Payments are made to the COG for monthly premiums, monthly stop-loss premiums and administrative charges. The ESC is fiscal agent for the COG. The Treasurer of the ESC pays Mutual Health Services Company and Aultcare Corporation monthly for all participating districts, the actual amount of claims processed, the stop-loss premium and the administrative charges.

**C. Worker’s Compensation**

The ESC also participates in a program with the COG to obtain workers’ compensation coverage. This program is administered by CompManagement, Inc. The experience rating of each of the participating districts is calculated as one experience rate and applied to all participants in the program. Premiums paid to the Ohio Bureau of Workers’ Compensation are based on this calculation. Total savings are then determined and each participant’s performance is compared to the overall savings percentage of the program. The districts will then either receive money back or be required to contribute additional money to the Program.



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

**NOTE 10 - PENSION PLANS**

**A. School Employees Retirement System**

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

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 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 ESC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$539,298, \$520,464 and \$520,221, respectively; 88.73 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

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

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

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

**NOTE 10 - 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 2012, 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, 2012, 2011 and 2010 were \$1,037,061, \$1,019,505 and \$989,529, respectively; 85.60 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$28,388 made by the ESC and \$20,277 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, 2012, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

**NOTE 11 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B 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".

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

**NOTE 11 - 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 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.

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$103,348, \$156,479 and \$113,196, respectively; 88.73 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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 ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$31,848, \$33,493 and \$30,936, respectively; 88.73 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, 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, 2012, 2011 and 2010 were \$79,774, \$78,423 and \$76,118, respectively; 85.60 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

**NOTE 12 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

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

**B. Litigation**

There are no claims or lawsuits pending against the ESC that, upon ultimate disposition, would have a material effect, if any, on the financial condition of the ESC.

**NOTE 13 - RELATED PARTY TRANSACTIONS**

During fiscal year 2012, the ESC received fees in the amount of \$430,938 (including \$127,560 in accounts receivable) for fiscal agent services provided to the Stark County Schools Council of Governments.

The ESC also serves as fiscal agent for Stark Portage Area Computer Consortium (SPARCC). In lieu of fiscal agent fees, the ESC receives computer services from SPARCC at no charge.

**NOTE 14 - INVESTMENT POOL**

The ESC serves as fiscal agent for the Stark County Schools Council of Governments (COG) which is a legally separate entity. Investments are specifically purchased in the name of COG. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The COG earns interest on investments purchased in the name of the COG. This activity makes up the external portion of the investment pool.

During fiscal year 2012, investments were limited to federal agency securities, STAR Ohio, repurchase agreements and U.S. Government money market funds. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

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

**NOTE 14 - INVESTMENT POOL - (Continued)**

Condensed financial information for the investment pool follows:

| Statement of Net Assets                                     |                      |
|---|----------------------|
| June 30, 2012   |                      |
| <b>Assets</b>   |                      |
| Equity in pooled cash and investments                       | \$ 91,778,662        |
| Accrued interest receivable                                 | <u>115,226</u>       |
| <i>Total assets</i>   | <u>91,893,888</u>    |
| <b>Net assets held in trust for pool participants</b>       |                      |
| External portion  | 87,397,569           |
| Internal portion  | <u>4,496,319</u>     |
| <i>Total net assets held in trust for pool participants</i> | <u>\$ 91,893,888</u> |

Condensed financial information for the investment pool follows:

| Statement of Changes in Net Assets   |                      |
|--------------------------------------|----------------------|
| June 30, 2012                        |                      |
| <b>Additions</b>                     |                      |
| Interest                             | <u>\$ 848,809</u>    |
| <i>Total additions</i>               | <u>848,809</u>       |
| <b>Deductions</b>                    |                      |
| Capital transactions                 | 2,516,424            |
| Distributions to participants        | <u>748,131</u>       |
| <i>Total deductions</i>              | <u>3,264,555</u>     |
| <i>Change in net assets</i>          | (2,415,746)          |
| <i>Net assets, beginning of year</i> | <u>94,309,634</u>    |
| <i>Net assets, end of year</i>       | <u>\$ 91,893,888</u> |

Deposits and investments of the investment pool mirror those of the ESC. There are no differences between the deposits and investments of the ESC and those of the investment pool. See Note 4 for the disclosures related to investment risk as established in GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

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

**NOTE 15 - STATE AND LOCAL FUNDING**

**A. State Funding**

State funding in Education Service Centers (ESCs) is provided to support basic operations and statutorily mandated services. It consists of two major categories - unit funding for gifted and preschool handicapped units and a per pupil allocation.

Unit funding - Funding for an approved unit is based on a 1) a salary allowance for the teacher, psychologist, etc. in charge of the unit, 2) a non-salary unit allowance for preschool classroom units, related services, and a gifted allowance, and 3) a supplemental unit allowance for classroom units, other preschool special education units, and for gifted units.

Per pupil base funding - Ohio Revised Code 3317.11(F) provides for the State to pay ESCs \$37 per pupil or \$40.52 per pupil for multi-county ESCs to help support their basic operations and provision of services to school districts, community schools, chartered non-public schools and county and State run juvenile detention facilities. The Average Daily Membership (ADM) is calculated as the K-12 ADM of member districts minus the E-school ADM minus the ADM of community schools that are sponsored by another ESC plus the ADM of community schools that are sponsored by the ESC in question plus the handicapped ADM.

**B. Local Funding**

Approximately two-thirds of the funding for ESCs comes from the member districts they serve through deductions or transfers that the Ohio Department of Education (ODE) makes out of State foundation to the ESCs. A number of calculations comprise this deduction.

Special education extended service - Since the State stopped paying for extended service, special education extended service has become a local responsibility. It is paid at the daily rate on the minimum salary schedule, plus a fringe allowance up to a maximum number of days.

Supervisory allowance - One of the major services provided by ESCs since their inception has been supervisory services for local districts. Each city or exempted village school district that enters into an agreement for services from an ESC under Section 3313.843 of the Ohio Revised Code also is considered to be provided supervisory services by the ESC. Supervisory services are financed annually through supervisory units, the cost of which is determined by a formula in statute.

\$6.50 per pupil deduction - The ODE annually deducts from each local and client school district of each ESC, pursuant to Division (E) of Section 3317.023 of the Ohio Revised Code, and pays to the ESC an amount equal to \$6.50 times the school district's total student count. The Board of Education of any local or client school may agree to pay an amount in excess of \$6.50 per student in total student count. If a majority of Boards of Education of local school districts within an ESCs territory approve an amount in excess of \$6.50 per student, the department shall deduct the approved excess per student amount from all of the local school districts with the ESCs territory and pay the excess amount to the ESC. ESCs must notify ODE with a signed resolution of agreement of any per pupil amounts in excess of \$6.50 so proper deductions can be made.

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

**NOTE 15 - STATE AND LOCAL FUNDING - (Continued)**

Service contracts - Districts may set up service contracts with ESCs to pay for services above and beyond those covered by the above described funding sources. To receive payment pursuant to such contracts, or agreements, an ESC must furnish to the State a copy of the contract or written statement that clearly indicates the payments owed and is signed by the superintendent or treasurer of the responsible school district. These deductions are included in the ESC deduction of the foundation payment form. Instead of having contract amounts deducted by the State, ESCs may bill the districts directly. ESCs can also enter into agreements under Section 3313.844 of the Ohio Revised Code to provide services to community schools.

**NOTE 16 - OTHER COMMITMENTS**

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

| <u>Fund</u>        | <u>Year-End<br/>Encumbrances</u> |
|--------------------|----------------------------------|
| General fund       | \$ 62,777                        |
| Other governmental | <u>141,122</u>                   |
| Total              | <u>\$ 203,899</u>                |

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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, 2012

|   | <u>Budgeted Amounts</u> |                   | <u>Actual</u>       | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|---|-------------------------|-------------------|---------------------|---|
|   | <u>Original</u>         | <u>Final</u>      |                     |   |
| <b>Revenues:</b>                                      |                         |                   |                     |   |
| From local sources:                                   |                         |                   |                     |   |
| Tuition . . . . .                                     | \$ 8,115,794            | \$ 8,378,000      | \$ 8,133,709        | \$ (244,291)  |
| Contributions from private sources . . . . .          | 23,830                  | 24,600            | 18,894              | (5,706)   |
| Earnings on investments. . . . .                      | 19,374                  | 20,000            | 18,304              | (1,696)   |
| Charges for services . . . . .                        | -                       | -                 | 1,693               | 1,693   |
| Services provided to other entities. . . . .          | 5,068,061               | 5,231,800         | 5,067,798           | (164,002)   |
| Rental income. . . . .                                | 33,905                  | 35,000            | 28,263              | (6,737)   |
| Other local revenues. . . . .                         | 188,171                 | 194,250           | 161,159             | (33,091)  |
| Intergovernmental - State . . . . .                   | 2,965,200               | 3,061,000         | 3,052,853           | (8,147)   |
| Intergovernmental - Federal. . . . .                  | 35,842                  | 37,000            | 36,331              | (669)   |
| Total revenue . . . . .                               | <u>16,450,177</u>       | <u>16,981,650</u> | <u>16,519,004</u>   | <u>(462,646)</u>  |
| <b>Expenditures:</b>                                  |                         |                   |                     |   |
| Current:  |                         |                   |                     |   |
| Instruction:  |                         |                   |                     |   |
| Special. . . . .                                      | 4,867,028               | 5,072,946         | 4,818,000           | 254,946   |
| Support services:                                     |                         |                   |                     |   |
| Pupil. . . . .  | 2,800,154               | 2,918,625         | 2,895,888           | 22,737  |
| Instructional staff . . . . .                         | 4,325,196               | 4,508,190         | 4,385,713           | 122,477   |
| Board of education . . . . .                          | 87,495                  | 91,197            | 26,788              | 64,409  |
| Administration. . . . .                               | 3,026,244               | 3,154,281         | 3,148,521           | 5,760   |
| Fiscal . . . . .                                      | 381,323                 | 397,456           | 387,730             | 9,726   |
| Business . . . . .                                    | 798,023                 | 831,786           | 683,002             | 148,784   |
| Operations and maintenance. . . . .                   | 168,407                 | 175,532           | 184,276             | (8,744)   |
| Central. . . . .                                      | 51,445                  | 53,622            | 36,983              | 16,639  |
| Total expenditures . . . . .                          | <u>16,505,315</u>       | <u>17,203,635</u> | <u>16,566,901</u>   | <u>636,734</u>  |
| Excess of expenditures over<br>revenues. . . . .      | <u>(55,138)</u>         | <u>(221,985)</u>  | <u>(47,897)</u>     | <u>174,088</u>  |
| <b>Other financing sources (uses):</b>                |                         |                   |                     |   |
| Refund of prior year expenditures . . . . .           | 9,687                   | 10,000            | 4,958               | (5,042)   |
| Advances in. . . . .                                  | 1,005,202               | 1,037,678         | 1,037,678           | -   |
| Advances (out) . . . . .                              | (1,103,320)             | (1,150,000)       | (1,102,815)         | 47,185  |
| Sale of capital assets. . . . .                       | 484                     | 500               | 110                 | (390)   |
| Total other financing sources (uses) . . . . .        | <u>(87,947)</u>         | <u>(101,822)</u>  | <u>(60,069)</u>     | <u>41,753</u>   |
| Net change in fund balance . . . . .                  | (143,085)               | (323,807)         | (107,966)           | 215,841   |
| <b>Fund balance at beginning of year . . . . .</b>    | 1,033,384               | 1,033,384         | 1,033,384           | -   |
| <b>Prior year encumbrances appropriated . . . . .</b> | 167,560                 | 167,560           | 167,560             | -   |
| <b>Fund balance at end of year. . . . .</b>           | <u>\$ 1,057,859</u>     | <u>\$ 877,137</u> | <u>\$ 1,092,978</u> | <u>\$ 215,841</u>   |

SEE ACCOMPANYING BUDGETARY NOTES



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**BUDGETARY NOTES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 1 - BUDGETARY PROCESS**

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC's 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 statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The ESC's 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 object level for the general fund and at the fund level for all other 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 statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

**NOTE 2 - BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) To reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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BUDGETARY NOTES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

**Net Change in Fund Balance**

|   | <u>General Fund</u> |
|---|---------------------|
| Budget basis                            | \$ (107,966)        |
| Net adjustment for revenue accruals     | (59,940)            |
| Net adjustment for expenditure accruals | 6,353               |
| Net adjustment for other sources/uses   | 60,179              |
| Adjustment for encumbrances             | <u>88,978</u>       |
| GAAP basis                              | <u>\$ (12,396)</u>  |

**STARK COUNTY ESC  
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2012**

| <b>FEDERAL GRANTOR</b><br><i>Pass Through Grantor</i><br>Program Title | Federal<br>CFDA<br>Number | Receipts                         | Expenditures                     |
|--|---------------------------|----------------------------------|----------------------------------|
| <b>U.S. DEPARTMENT OF EDUCATION</b>                                    |                           |                                  |                                  |
| <i>Passed Through Ohio Department of Education:</i>                    |                           |                                  |                                  |
| <i>Special Education Cluster:</i>                                      |                           |                                  |                                  |
| Special Education: Preschool Grant                                     | 84.173                    | 133,357                          | 131,882                          |
| Special Education: Grants to States                                    | 84.027                    | <u>1,093,284</u>                 | <u>1,127,148</u>                 |
| <b>Total Special Education Cluster</b>                                 |                           | <b>1,226,641</b>                 | <b>1,259,030</b>                 |
| Even Start: State Educational Agencies                                 | 84.213                    | 56,081                           | 62,591                           |
| English Language Acquisition Grants                                    | 84.365                    | 57,422                           | 59,522                           |
| Special Education - State Personnel Development                        | 84.323                    | 166,506                          | 153,279                          |
| <i>Passed Through Ohio Department of Health</i>                        |                           |                                  |                                  |
| Special Education - Grants for Infants and Families                    | 84.181                    | 426,399                          | 487,065                          |
| ARRA Special Education - Grants for Infants and Families               | 84.393                    |                                  | 25,322                           |
| (Direct)   |                           |                                  |                                  |
| Fund for the Improvement of Education                                  | 84.215                    | <u>283,990</u>                   | <u>298,882</u>                   |
| <b>Total U.S. Department of Education</b>                              |                           | <b><u>2,217,039</u></b>          | <b><u>2,345,691</u></b>          |
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>                    |                           |                                  |                                  |
| <i>Passed Through Stark County Commissioners:</i>                      |                           |                                  |                                  |
| Temporary Assistance for Needy Families                                | 93.558                    | <u>74,968</u>                    | <u>64,330</u>                    |
| <b>Total U.S. Department of Health and Human Services</b>              |                           | <b><u>74,968</u></b>             | <b><u>64,330</u></b>             |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                                  |                           |                                  |                                  |
| <i>Passed Through Ohio Department of Education:</i>                    |                           |                                  |                                  |
| <i>Child Nutrition Cluster:</i>  |                           |                                  |                                  |
| National School Lunch Program  | 10.555                    | <u>18,624</u>                    | <u>18,624</u>                    |
| Total Child Nutrition Cluster  |                           | <u>18,624</u>                    | <u>18,624</u>                    |
| Child and Adult Care Food Program                                      | 10.558                    | <u>39,861</u>                    | <u>39,861</u>                    |
| <b>Total U.S. Department of Agriculture</b>                            |                           | <b><u>58,485</u></b>             | <b><u>58,485</u></b>             |
| <b>Totals</b>  |                           | <b><u><u>\$2,350,492</u></u></b> | <b><u><u>\$2,468,506</u></u></b> |

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

**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

**NOTE C - MATCHING REQUIREMENTS**

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



# Dave Yost • Auditor of State

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

Stark County Educational Service Center  
Stark County  
2100 38<sup>th</sup> Street NW  
Canton, Ohio 44709

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stark County Educational Service Center, Stark County, (the Service Center) as of and for the year ended June 30, 2012, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated December 21, 2012. 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 Standards*. Other auditors audited the financial statements of the Investment Trust Fund, as described in our report of the Service Center's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that those auditors separately reported.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, 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 more than a reasonable possibility that a material misstatement of the District'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 material weaknesses, as defined above.

### **Compliance and Other Matters**

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

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

**Dave Yost**  
Auditor of State

December 21, 2012



# Dave Yost • Auditor of State

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

Stark County Educational Service Center  
Stark County  
2100 38<sup>th</sup> Street NW  
Canton, Ohio 44709

To the Governing Board:

### Compliance

We have audited the compliance of Stark County Educational Service Center (the Service Center) 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 the Stark County Educational Service Center's major federal program for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal program. The Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Service Center's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure 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 District's compliance with these 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 on the District's compliance with these requirements.

In our opinion, the Stark County Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2012.

### Internal Control Over Compliance

The Service 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 Service 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 Service Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, 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 a 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 entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

December 21, 2012



**STARK COUNTY EDUCATIONAL SERVICE CENTER  
STARK COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2012**

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

|                     |   |  |
|---------------------|---|--|
| <i>(d)(1)(i)</i>    | <b>Type of Financial Statement Opinion</b>  | Unqualified  |
| <i>(d)(1)(ii)</i>   | <b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>                  | No   |
| <i>(d)(1)(ii)</i>   | <b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b> | No   |
| <i>(d)(1)(iii)</i>  | <b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>                        | No   |
| <i>(d)(1)(iv)</i>   | <b>Were there any material internal control weaknesses reported for major federal programs?</b>                       | No   |
| <i>(d)(1)(iv)</i>   | <b>Were there any significant deficiencies in internal control reported for major federal programs?</b>               | No   |
| <i>(d)(1)(v)</i>    | <b>Type of Major Programs' Compliance Opinion</b>   | Unqualified  |
| <i>(d)(1)(vi)</i>   | <b>Are there any reportable findings under § .510(a)?</b>   | No   |
| <i>(d)(1)(vii)</i>  | <b>Major Programs (list):</b>   | Special Education Cluster CFDA #'s 84.027 and 84.173 |
| <i>(d)(1)(viii)</i> | <b>Dollar Threshold: Type A/B Programs</b>  | Type A: > \$ 300,000<br>Type B: all others           |
| <i>(d)(1)(ix)</i>   | <b>Low Risk Auditee?</b>  | Yes  |

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

None.

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

None.

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# Dave Yost • Auditor of State

STARK COUNTY EDUCATIONAL SERVICE CENTER

STARK 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  
FEBRUARY 5, 2013