

Metropolitan Regional Service Council

SUMMIT COUNTY

AUDIT REPORT

For the Years Ended June 30, 2011 and 2010

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

Board of Directors
Metropolitan Regional Service Council
420 Washington Avenue
Cuyahoga Falls, Ohio 44221

We have reviewed the *Report of Independent Accountants* of the Metropolitan Regional Service Council, Summit County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2009 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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

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

Dave Yost
Auditor of State

December 12, 2011

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METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

**Metropolitan Regional Service Council
Summit County
420 Washington Avenue
Cuyahoga Falls, Ohio 44221**

To the Board of Directors:

We have audited the accompanying financial statements of the Metropolitan Regional Service Council (MRSC), as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the MRSC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, MRSC prepares these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP would require MRSC to reformat its financial statement presentation and make other changes effective for the years ended June 30, 2011 and 2010. While the MRSC does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. MRSC has elected not to reformat its statements. Since MRSC does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above, for the years ended June 30, 2011 and 2010, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of MRSC as of June 30, 2011 and 2010, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances and reserves for encumbrances of MRSC as of June 30, 2011 and 2010, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires MRSC to include Management's Discussion and Analysis for the years ended June 30, 2011 and 2010. MRSC has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of its financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2011 on our consideration of MRSC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Charles E. Harris & Associates, Inc.
September 23, 2011

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCE -
GENERAL FUND
For the year ended June 30, 2011**

	Governmental Fund Type
	General
Cash Receipts:	
Intergovernmental	\$ 401,396
Charges for Services	3,569,732
Earning on Investment	2,733
Miscellaneous	1,428
Total Cash Receipts	3,975,289
Cash Disbursements:	
Employee Wages and Benefits	1,346,412
Purchased Services	1,890,098
Supplies and Materials	755,893
Miscellaneous	38,117
Capital Outlay	38,244
Total Cash Disbursements	4,068,764
Total Receipts Over/(Under) Disbursements	(93,475)
Cash Balance July 1, 2010	1,411,545
Cash Balances June 30, 2011	\$ 1,318,070
Reserves for Encumbrances	\$ 54,096

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

METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCE -
GENERAL FUND
For the year ended June 30, 2010

	Governmental Fund Type
	General
Cash Receipts:	
Intergovernmental	\$ 358,271
Charges for Services	3,422,530
Earning on Investment	2,755
Total Cash Reciepts	3,783,556
Cash Disbursements:	
Employee Wages and Benefits	1,439,715
Purchased Services	1,532,131
Supplies and Materials	735,309
Miscellaneous	49,668
Capital Outlay	83,439
Total Cash Disbursements	3,840,262
Total Receipts Over/(Under) Disbursements	(56,706)
Cash Balance July 1, 2009	1,468,251
Cash Balances. June 30, 2010	\$ 1,411,545
Reserves for Encumbrances	\$ 114,983

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

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

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

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

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

B. Basis of Accounting

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

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

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Cash and Investments

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

D. Fund Accounting

MRSC maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements in separate funds. MRSC uses the General Fund to account for its operations.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

As of June 30, 2011 and 2010, encumbrances of \$54,096 and \$114,983, respectively remained open.

F. Property, Plant and Equipment

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

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

The carrying amount of the Council's cash and investments at June 31 was as follows:

	<u>2011</u>	<u>2010</u>
Demand Deposits	\$ (146,930)	\$ (193,455)
Repurchase Agreements	<u>1,465,000</u>	<u>1,605,000</u>
Total Investments and Cash	<u><u>\$ 1,318,070</u></u>	<u><u>\$ 1,411,545</u></u>

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

The negative deposits are due to outstanding checks and the Council investing 100% of available cash in overnight repurchase agreements.

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended June 30, 2011 and 2010 follows:

<u>2010 Budgeted vs Actual Receipts</u>			
<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
	<u>Receipts</u>	<u>Receipts</u>	
General Fund	\$ 3,841,523	\$ 3,783,556	\$ (57,967)

<u>2010 Budgeted vs Actual Budgetary Basis Expenditures</u>			
<u>Fund:</u>	<u>Appropriation</u>	<u>Budgetary</u>	<u>Variance</u>
	<u>Authority</u>	<u>Expenditures</u>	
General Fund	\$ 3,902,687	\$ 3,955,245	\$ (52,558)

<u>2011 Budgeted vs Actual Receipts</u>			
<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
	<u>Receipts</u>	<u>Receipts</u>	
General Fund	\$ 4,157,150	\$ 3,975,289	\$ (181,861)

<u>2011 Budgeted vs Actual Budgetary Basis Expenditures</u>			
<u>Fund:</u>	<u>Appropriation</u>	<u>Budgetary</u>	<u>Variance</u>
	<u>Authority</u>	<u>Expenditures</u>	
General Fund	\$ 4,192,143	\$ 4,122,860	\$ 69,283

4. RETIREMENT SYSTEM

The MRSC's employees belong to the School Employees Retirement System (SERS) of Ohio. SERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including post-retirement health care, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code. MRSC has paid all contributions required through June 30, 2011.

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

5. RISK MANAGEMENT

A. Commercial Insurance

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

**METROPOLITAN REGIONAL SERVICE COUNCIL
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010**

5. RISK MANAGEMENT (CONTINUED)

B. Risk Pool Membership

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

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

	<u>2010</u>	<u>2009</u>
Total assets	\$ 3,859,753	\$ 3,662,470
Total liabilities	<u>\$ 1,732,921</u>	<u>\$ 1,729,914</u>
Accumulated surplus	<u>\$ 2,126,832</u>	<u>\$ 1,932,556</u>

The Plan had 253 and 263 members as of December 31, 2010 and 2009. The Plan has an agreement with Hylant Administrative Services, LLC (HAS) to provide underwriting, claims management, risk management, accounting, system support services, sales and marketing for the Plan.

The Plan has agreed to pay judgments, settlements and other expenses resulting from claims arising related to the coverage provided, in excess of the member's deductible. The Plan has developed the policy forms and endorsements of coverage and substantially reinsured these coverages. The individual members are only responsible for their self-retention (deductible) amounts that vary from member to member.

MRSC provided staff health insurance coverage through United Health insurance plan and dental coverage from Standard insurance plan during fiscal year 2010. For fiscal year 2011, MRSC purchased health coverage through Medical Mutual of Ohio insurance plan and maintained dental coverage through Standard insurance plan.

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

Metropolitan Regional Service Council
Summit County
420 Washington Ave.
Cuyahoga Falls, Ohio 44221

To the Board of Directors:

We have audited the financial statements of the Metropolitan Regional Service Council (MRSC) as of and for the years ending June 30, 2011 and 2010, and have issued our report thereon dated September 23, 2011 wherein we noted the Council followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Council's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Council'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 Council'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 Council'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 such 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, the audit committee, the Council, and others within the Council. We intend it for no one other than these specified parties.

Charles E. Harris and Associates

Charles E. Harris and Associates, Inc.

September 23, 2011

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report, for the years ending June 30, 2009 and 2008, reported no material citations or recommendations.



Dave Yost • Auditor of State

METROPOLITAN REGIONAL SERVICE COUNCIL

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 22, 2011**