



Dave Yost • Auditor of State

**WARREN COUNTY EDUCATIONAL SERVICE CENTER
WARREN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Warren County Educational Service Center
Warren County
1879 Deerfield Road
Lebanon, Ohio 45036

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Warren County Educational Service Center, Warren County, Ohio (the Center), as of and for the year ended June 30, 2012, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing 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.

Ohio Administrative Code § 117-2-03 (B) requires the Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Warren County Educational Service Center, Warren County, Ohio, as of June 30, 2012, and the respective changes in cash financial position thereof and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2013, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the Center's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net cash assets, changes in net cash assets, and governmental activities. These tables provide additional information, but are not part of the basic financial statements. However these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were 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. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

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

February 11, 2013

**Warren County Educational Service Center
Warren County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

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

Financial Highlights

Key financial highlights for 2012 are as follows:

- Net cash assets of governmental activities decreased \$1,580,678 which represents a 28% decrease from 2011.
- General receipts accounted for \$1,396,824 in receipts or 8% of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$16,591,476 or 92% of total receipts of \$17,988,300 .
- The Center had \$19,568,978 in disbursements related to governmental activities; which were offset by program specific charges for services and sales, grants and contributions of \$16,591,476 .

Overview of the Cash Basis Financial Statements

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

The *Statement of Net Assets – Cash Basis* and the *Statement of Activities – Cash Basis* provide information about the activities of the whole Center, presenting both an aggregate view of the Center'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 Center's most significant funds with all other non-major funds presented in total in one column. The General Fund and the ESC Work Site Fund are the major funds of the Center.

Government-wide Financial Statements – Cash Basis

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The Government-wide Financial Statements answer this question. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**Warren County Educational Service Center
Warren County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

These two statements report the Center's net assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the Center as a whole, the cash basis financial position of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Center's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

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

In the Government-wide Financial Statements, the overall financial position of the Center is presented in the following manner:

- **Governmental Activities** – Most of the Center's programs and services are reported here including instruction, support services, operation of non-instructional services, pupil transportation, and fiscal charges.

Fund Financial Statements

The analysis of the Center's major funds are presented in the Fund Financial Statements. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

Governmental Funds All of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. The governmental fund statements provide a detailed view of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various Center programs. Since the Center is reporting on the cash basis of accounting, there are no differences in the net cash assets and fund cash balances or changes in net cash assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

The Center's budgetary process accounts for certain transactions on a cash basis. The budgetary statement for the General Fund is presented to demonstrate the Center's compliance with annually adopted budgets.

**Warren County Educational Service Center
Warren County, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

The Center as a Whole

As stated previously, the Statement of Net Assets – Cash Basis looks at the Center as a whole. Table 1 provides a summary of the Center’s net cash assets for fiscal year 2012 compared to fiscal year 2011:

Table 1
Net Cash Assets

	Governmental Activities	
	2012	2011
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$4,124,143	\$5,704,821
Total Assets	<u>4,124,143</u>	<u>5,704,821</u>
Net Assets:		
Restricted	487,256	312,828
Unrestricted	<u>3,636,887</u>	<u>5,391,993</u>
Total Net Cash Assets	<u><u>\$4,124,143</u></u>	<u><u>\$5,704,821</u></u>

The total net cash assets of governmental activities decreased \$1,580,678 which represents a 28% decrease from 2011. The decrease in cash was attributed to the increase in capital outlay expense as the Center bought more equipment as compared to the previous year.

A portion of the Center’s net cash assets, \$487,256 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

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Warren County Educational Service Center
Warren County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Table 2 shows the changes in net cash assets for fiscal year 2012 compared to fiscal year 2011.

Table 2
Changes in Net Cash Assets

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Cash Receipts:		
Program Cash Receipts:		
Charges for Services and Sales	\$15,765,391	\$14,822,033
Operating Grants and Contributions	826,085	1,107,339
General Receipts:		
Grants and Entitlements	1,201,220	1,633,506
Other	<u>195,604</u>	<u>21,469</u>
Total Cash Receipts	<u>17,988,300</u>	<u>17,584,347</u>
Cash Disbursements:		
Instruction	6,863,629	6,357,106
Support Services:		
Pupil and Instructional Staff	7,489,813	7,555,651
School Administrative, General Administration, Fiscal and Business	2,547,933	2,508,917
Operations and Maintenance	192,811	174,730
Pupil Transportation	157,136	178,229
Central	316,766	410,219
Operation of Non-Instructional Services	5,376	4,874
Capital Outlay	<u>1,995,514</u>	<u>345,356</u>
Total Cash Disbursements	<u>19,568,978</u>	<u>17,535,082</u>
Change in Net Cash Assets	(1,580,678)	49,265
Net Cash Assets Beginning of Year	<u>5,704,821</u>	<u>5,655,556</u>
Net Cash Assets End of Year	<u><u>\$4,124,143</u></u>	<u><u>\$5,704,821</u></u>

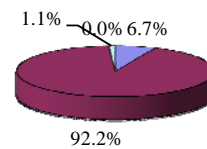
**Warren County Educational Service Center
Warren County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

Governmental Activities

Over the past several fiscal years, the Center has remained in stable financial condition. This has been accomplished through good fiscal management. The Educational Service Center is heavily dependent on charges for services and sales, and intergovernmental revenue.

The Center's intergovernmental revenue consists of school foundation basic allowance, and federal and state grants. The Center relies on this state funding to operate at the current levels of service.

Receipt Sources	2012	Percent of Total
General Grants	\$1,201,220	6.7%
Program Receipts	16,591,476	92.2%
Investment Earnings	7,260	0.0%
Other Receipts	188,344	1.1%
	<u>\$17,988,300</u>	<u>100.00%</u>



Instruction comprises 35% of governmental program disbursements. Support services disbursements were 55% of governmental program disbursements. All other disbursements were 10%.

The first column of the Statement of Activities – Cash Basis lists the first column lists the major activities of the Center. The next column identifies the costs of providing these services. The next two columns of the Statement entitled Program Receipts identify, in general, the source of the receipts. The amounts are either paid by people who are directly charged for the service or grants and contributions received by the Center that must be used to provide a specific service. A comparison between the total cost of services and the net cost is presented in Table 3. That is, it identifies the cost of these services supported by restricted State entitlements and investment earnings.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Cash Disbursements:				
Instruction	\$6,863,629	\$6,357,106	(\$461,604)	(\$485,473)
Support Services:				
Pupil and Instructional Staff	7,489,813	7,555,651	(345,673)	(518,878)
School Administrative, General				
Administration, Fiscal and Business	2,547,933	2,508,917	(155,892)	(220,726)
Operations and Maintenance	192,811	174,730	(11,630)	(13,762)
Pupil Transportation	157,136	178,229	18,714	(6,509)
Central	316,766	410,219	(20,597)	(30,754)
Operation of Non-Instructional Services	5,376	4,874	(5,306)	230
Capital Outlay	<u>1,995,514</u>	<u>345,356</u>	<u>(1,995,514)</u>	<u>(329,838)</u>
Total Cash Disbursements	<u>\$19,568,978</u>	<u>\$17,535,082</u>	<u>(\$2,977,502)</u>	<u>(\$1,605,710)</u>

**Warren County Educational Service Center
Warren County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

The Center's Funds

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

The Center has two major governmental funds: the General Fund and the ESC Work Site Fund. Assets of these funds comprised \$3,647,996 (88%) of the total \$4,124,153 in governmental funds assets.

General Fund: Fund cash balance at June 30, 2012 was \$3,622,282, an increase from 2011 of \$302,134, which was mainly due to an increase in charges for services.

ESC Work Site Fund: The net change in fund cash balance for fiscal year 2012 was (\$1,950,104).

General Fund Budgeting Highlights

The Center's Budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2012, the Center amended its General Fund budget numerous times, however none were significant. The Center uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the Center revised the Budget in an attempt to deal with unexpected changes in receipts and disbursements.

For the General Fund, final budget basis receipts was \$15,796,167, compared to original budget estimates of \$18,410,421. Of this \$(2,614,254) difference, most was due to overestimating for taxes and intergovernmental receipts.

The Center's ending unobligated cash balance was \$2,615,242.

Capital Assets and Debt Administration

Capital Assets

The Center does not currently present its capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt

At June 30, 2012, the Center had no general obligation debt outstanding.

**Warren County Educational Service Center
Warren County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)**

For the Future

Warren County Educational Service Center is financially stable, and has been over the past several years. As indicated in the preceding financial information, the Center is dependent on intergovernmental revenue. Intergovernmental revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the Educational Service Center to provide a quality education for the students of Warren County.

All other income is derived from direct invoicing for services and grants. In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002, the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court had two new Justices beginning in calendar year 2003 and another in calendar year 2006 and the new court may be called upon to address the issue. At this time, there can be no reasonable estimate of the decision or its impact on school funding.

As of the date of these financial statements, Center is unable to determine what effect, if any, this decision will have on its future State funding and on its financial statements.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it received. If you have any questions about this report or need additional information, contact Shaun Bevan, Treasurer of Warren County Educational Service Center, 1879 Deerfield Road, Lebanon, Ohio 45036.

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Warren County Educational Service Center
Statement of Net Assets - Cash Basis
June 30, 2012

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,124,143</u>
Total Assets	<u>4,124,143</u>
Net Assets:	
Restricted for:	
Capital Projects	25,714
Other Grants	381,972
District School Bus Driver Training	74,756
Other Purposes	4,814
Unrestricted	<u>3,636,887</u>
Total Cash Net Assets	<u>\$4,124,143</u>

See accompanying notes to the basic financial statements.

Warren County Educational Service Center
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2012

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Cash Assets
		Charges for Services and Sales	Operating Grants and Contributions	Total
Governmental Activities:				
Instruction:				
Regular	\$838,724	\$765,246	\$39,517	(\$33,961)
Special	6,011,664	5,582,055	2,828	(426,781)
Vocational	0	11,002	0	11,002
Other	13,241	1,377	0	(11,864)
Support Services:				
Pupil	7,308,592	6,303,758	668,949	(335,885)
Instructional Staff	181,221	163,310	8,123	(9,788)
General Administration	25,674	24,003	0	(1,671)
School Administration	2,000,340	1,880,635	0	(119,705)
Fiscal	492,181	459,600	0	(32,581)
Business	29,738	27,803	0	(1,935)
Operations and Maintenance	192,811	181,181	0	(11,630)
Pupil Transportation	157,136	70,982	104,868	18,714
Central	316,766	294,369	1,800	(20,597)
Operation of Non-Instructional Services	5,376	70	0	(5,306)
Capital Outlay	1,995,514	0	0	(1,995,514)
Total Governmental Activities	\$19,568,978	\$15,765,391	\$826,085	(2,977,502)

General Receipts:	
Grants and Entitlements not Restricted to Specific Programs	1,201,220
Investment Earnings	7,260
Other Receipts	188,344
Total General Receipts	1,396,824
Change in Net Cash Assets	(1,580,678)
Net Cash Assets Beginning of Year	5,704,821
Net Cash Assets End of Year	\$4,124,143

See accompanying notes to the basic financial statements.

Warren County Educational Service Center
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2012

	General	ESC Work Site	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$3,622,282	\$25,714	\$476,147	\$4,124,143
Total Assets	<u>3,622,282</u>	<u>25,714</u>	<u>476,147</u>	<u>4,124,143</u>
Fund Balances:				
Restricted	0	25,714	461,542	487,256
Committed	77,663	0	14,605	92,268
Assigned	486,269	0	0	486,269
Unassigned	3,058,350	0	0	3,058,350
Total Fund Balances	<u>\$3,622,282</u>	<u>\$25,714</u>	<u>\$476,147</u>	<u>\$4,124,143</u>

See accompanying notes to the basic financial statements.

Warren County Educational Service Center
Statement of Cash Receipts, Cash Disbursements
and Changes in Fund Cash Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	ESC Work Site	Other Governmental Funds	Total Governmental Funds
Receipts:				
Tuition and Fees	\$2,024,604	\$0	\$12,757	\$2,037,361
Investment Earnings	7,260	0	0	7,260
Intergovernmental	1,201,220	0	826,085	2,027,305
Contract Services	13,101,835	0	606,447	13,708,282
Other Revenue	114,732	0	93,360	208,092
Total Receipts	16,449,651	0	1,538,649	17,988,300
Cash Disbursements:				
Current:				
Instruction:				
Regular	769,310	0	69,414	838,724
Special	6,009,014	0	2,852	6,011,866
Other	13,241	0	0	13,241
Support Services:				
Pupil	6,141,489	0	1,167,103	7,308,592
Instructional Staff	167,791	0	13,430	181,221
General Administration	25,674	0	0	25,674
School Administration	2,000,340	0	0	2,000,340
Fiscal	491,595	0	586	492,181
Business	29,738	0	0	29,738
Operations and Maintenance	192,811	0	0	192,811
Pupil Transportation	28,015	0	129,121	157,136
Central	315,498	0	1,268	316,766
Operation of Non-Instructional Services	76	0	5,300	5,376
Capital Outlay	38,996	1,956,518	0	1,995,514
Total Cash Disbursements	16,223,588	1,956,518	1,389,074	19,569,180
Excess of Receipts Over (Under) Cash Disbursements	226,063	(1,956,518)	149,575	(1,580,880)
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	202	0	0	202
Advances In	482,034	6,414	95,713	584,161
Advances (Out)	(102,126)	(304,168)	(177,867)	(584,161)
Transfers In	0	304,168	0	304,168
Transfers (Out)	(304,039)	0	(129)	(304,168)
Total Other Financing Sources (Uses)	76,071	6,414	(82,283)	202
Net Change in Fund Cash Balance	302,134	(1,950,104)	67,292	(1,580,678)
Fund Cash Balance Beginning of Year, Restated	3,320,148	1,975,818	408,855	5,704,821
Fund Cash Balance End of Year	\$3,622,282	\$25,714	\$476,147	\$4,124,143

See accompanying notes to the basic financial statements.

Warren County Educational Service Center
Statement of Receipts, Cash Disbursements and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Tuition and Fees	\$1,485,909	\$1,383,774	\$1,383,774	\$0
Investment Earnings	20,258	7,260	7,260	0
Intergovernmental	1,701,600	1,201,220	1,201,220	0
Charges for Services	15,126,522	13,101,835	13,101,835	0
Other Receipts	76,132	102,078	102,078	0
Total Budgetary Basis Receipts	18,410,421	15,796,167	15,796,167	0
Budgetary Basis Disbursements:				
Current:				
Instruction:				
Regular	956,095	492,546	492,351	195
Special	5,552,422	5,831,034	5,828,721	2,313
Other	20,138	14,760	14,755	5
Support Services:				
Pupil	5,535,856	5,946,925	5,944,567	2,358
Instructional Staff	490,479	171,211	171,144	67
General Administration	32,223	26,132	26,122	10
School Administration	2,185,502	1,961,238	1,960,460	778
Fiscal	528,748	485,580	485,387	193
Business	39,496	32,662	32,649	13
Operations and Maintenance	181,080	212,212	212,128	84
Pupil Transportation	27,185	28,514	28,503	11
Central	348,387	377,396	377,246	150
Operation of Non-Instructional Services	196	75	75	0
Capital Outlay	36,764	38,263	38,248	15
			0	
Total Budgetary Basis Disbursements	15,934,571	15,618,548	15,612,356	6,192
Excess of Budgetary Basis Receipts Over (Under) Budgetary Basis Disbursements	2,475,850	177,619	183,811	6,192
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	0	202	202	0
Advances In	0	482,034	482,034	0
Advances (Out)	(450,000)	(102,126)	(102,126)	0
Transfers In	0	44,626	44,626	0
Transfers (Out)	(500,000)	(304,168)	(304,168)	0
Total Other Financing Sources (Uses)	(950,000)	120,568	120,568	0
Net Change in Fund Balance	1,525,850	298,187	304,379	6,192
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	2,310,863	2,310,863	2,310,863	0
Fund Balance End of Year	\$3,836,713	\$2,609,050	\$2,615,242	\$6,192

See accompanying notes to the basic financial statements.

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**Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

Note 1 - Description of the Center

The Warren County Educational Service Center (the "Center") is located in Lebanon, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to the Carlisle, Kings, Little Miami and Wayne Local School Districts, as well as the Springboro, Lebanon, Franklin and Middletown City School Districts. Other school districts outside Warren County are served on an individual contract basis for various services. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Warren County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Center is staffed by 127 classified, 181 certified, and three administrative employees providing educational service to school districts.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Center consists of all funds, departments, boards, and agencies that are not legally separate from the Center. For the Center, this includes general operations and student related activities.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center, in that the Center approves the budget, the issuance of debt, or the levying of taxes. Based on this criterion, the Center has no discretely presented component unit in the basic financial statements.

The Center is associated with five organizations. Two are jointly governed organizations, and two are insurance purchasing pools. These organizations are the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Cooperative (SOEPC), the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan, and the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 7 and 8 to the basic financial statements.

**Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

Note 2 – Summary of Significant Accounting Policies

These financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles general accepted in the United States of America (GAAP). Generally accepted accounting principles include all the relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

Ohio Administrative Code, Section 117-2-03 (B), requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Center prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The Center can be fined and various other administrative remedies may be taken against the Center

Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Center are grouped into the category governmental.

Governmental Funds

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

The following are the Center's major governmental funds:

General Fund – This fund is the operating fund of the Center and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund is available to the Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

ESC Work Site – This fund is used to account for monies relating to the renovation of the Center's new office space in Lebanon, Ohio.

The other governmental funds of the Center account for grants and other resources of the Center whose use is restricted to a particular purpose.

**Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

Basis of Presentation

Government-wide Financial Statements

The statement of net assets - cash basis and the statement of activities - cash basis display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the Center's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Center. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the Center.

Fund Financial Statements

The fund financial statements report more detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Fund statements present each major fund in a separate column and aggregate non-major funds in a single column. Fiduciary funds are reported by fund type.

Equity in Pooled Cash and Cash Equivalents

To improve cash management, cash received by the Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposits and repurchase agreements are reported at cost.

The Center has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with 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 share price, which is the price the investment could be sold for on June 30, 2012.

**Warren County Educational Service Center
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during the fiscal year amounted to \$7,260 credited to the general fund.

Inventory and Prepaid Items

The Center reports disbursements for inventory and prepaid items when paid. These items are not reflected in the accompanying financial statements under the cash basis of accounting.

Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected in the accompanying financial statements under the cash basis of accounting.

Unpaid Vacation and Sick 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 cash basis of accounting used by the Center.

Interfund Activity

During the course of normal operations, the Center has numerous transactions between funds, including expenditures and transfers of resources to provide services and improve assets. Operating subsidies are recorded as operating transfers. The classification of amounts recorded as subsidies, advances or equity contributions is based on the intent of the Center at the time of the transaction.

Employer Contributions to Cost-Sharing Plans

The Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described later in the notes, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Budgetary Process

The budgetary process entails the preparation of budgetary documents within an established timetable, as prescribed by the Center's Board policy. The Center adopts its budget on or before the start of the new fiscal year. The major documents included in the budget are the estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. Upon review by the Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant. All funds are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each fund and function.

**Warren County Educational Service Center
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

In the first quarter of each fiscal year, the Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Center. Part (C) includes the adopted appropriation resolution of the Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Center the amount from part (B) that is to be apportioned to their district.

Appropriations

The annual appropriation resolution is enacted by the Center at the fund, function, and object level of expenditures. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenses of the Center. Budgetary controls require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of the Center.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, several supplemental appropriations were enacted.

The final budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

While the Center is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance – Budget and Actual (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 difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund balance (cash).

**Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund:

Net Change in Fund Cash Balance:

	General Fund
Cash Basis	\$302,134
Transfers In	44,626
Transfers (Out)	(129)
Adjustment for Encumbrances	(408,736)
Funds Budgeted Elsewhere	61,113
Budget Basis	(\$992)

Fund Cash Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, the Center classifies its fund cash balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education.

Assigned – resources that are intended to be used for specific purposes as approved through the Center’s formal purchasing procedure by the Treasurer.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit cash balance resulting from incurred expenses for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The Center applies restricted resources first when a disbursement has incurred for purposes which both restricted and unrestricted net assets are available. The Center considers committed, assigned, and unassigned fund balances, respectively, to be spent when disbursements have incurred for purposes for which any of the unrestricted fund cash balance classifications could be used.

**Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

Net Cash Assets

Net cash assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The Center first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash assets are available.

Note 3 - Equity in Pooled Cash and Cash Equivalents

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the statement of net assets and balance sheet as "Equity in Pooled Cash and Cash Equivalents."

State statute requires the classification of monies held by the Center into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the Center. Such monies must by law be maintained either as cash in the Center treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.

**Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Center, 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.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2012, \$3,509,163 of the Center's bank balance of \$3,966,229 was exposed to custodial risk because it was all FDIC insured.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Investments

Investments are reported at fair value. As of June 30, 2012, the Center had the following investments (there were no long-term investments; for financial statement reporting purposes the investments below are considered cash equivalents):

Investment Type	Fair Value	Weighted Average Maturity (Years)
STAR Ohio	\$602,728	0.14
Total Fair Value	\$602,728	
Portfolio Weighted Average Maturity		0.14

Interest Rate Risk - In accordance with the investment policy, the Center manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the Center’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Concentration of Credit Risk – The Center’s investment policy allows investments in Federal Agencies or Instrumentalities. All investments were issued or guaranteed by the federal government. At year end, the Center’s allocations of investments (cash equivalents) were as follows: STAROhio (100%).

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Center’s securities are either insured and registered in the name of the Center or at least registered in the name of the Center.

**Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

Note 4 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and Center is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Center's contributions to SERS for the years ended June 30, 2012, 2011, and 2010 were \$576,842, \$569,054, and \$411,640, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

State Teachers Retirement System of Ohio

Plan Description

The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

**Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits

Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

**Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

Combined Plan Benefits

Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012, were 10% of covered payroll for members and 14% for employers. The Center's contributions to STRS for the years ended June 30, 2012, 2011, and 2010 were \$1,126,556, \$1,097,507, and \$1,046,933, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

**Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System of Ohio or the State Teachers Retirement System of Ohio use Social Security. As of June 30, 2012, two board members have elected Social Security. The Center's liability is 6.2% of wages paid.

Note 5 - Post Employment Benefits

School Employees Retirement System of Ohio

Plan Description

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation was .76%. Center contributions for the year ended June 30, 2012, 2011 and 2010 were \$31,316, \$30,893 and \$22,347, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, 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 ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

**Warren County Educational Service Center
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The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2012, the health care allocation was 1.43%. 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% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Center contributions assigned to health care for the years ended June 30, 2012, 2011, and 2010 were \$58,920, \$58,125, and \$42,046, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

The SERS 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 financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

State Teachers Retirement System of Ohio

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

**Warren County Educational Service Center
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Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2012, 2011 and 2010. The 14% employer contribution rate is the maximum rate established under Ohio law. The Center contributions for the years ended June 30, 2012, 2011, and 2010 were \$80,468, \$78,393, and \$74,781, respectively; 100% has been contributed for fiscal years 2012, 2011 and 2010.

Note 6 – Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from Board Policy and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. They may also earn vacation bonus days as specified in Board Policy. Vacation days may not be carried over. All full-time certificated and classified employees are entitled to three days personal leave per year, which does not accumulate from one year to the next. Teachers do not earn vacation time. Eleven and twelve month certified staff earn three weeks and four weeks, respectively. They may also earn vacation bonus days as specified in Board Policy, if hired prior to July 1, 1997. New employees hired after July 1, 1997 are not entitled to vacation bonus days.

Teachers, administrators and classified employees earn sick leave at the rate of one and one fourth days per month. Sick leave may be accumulated up to a maximum of 200 days. Upon retirement, payment is made for 30 percent of the first 200 days of total sick leave accumulation (a maximum of 60 days).

Health Care Benefits

The Center provides life insurance and accidental death and dismemberment insurance to full-time employees and other employees per Board policy through UnumProvident.

Medical and surgical benefits are provided through Anthem Blue Cross and Blue Shield through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (Note 8).

The Center also offers universal life insurance and/or disability insurance or tuition reimbursement if eligible employees choose these benefits instead of health insurance. Universal life insurance is offered through Midland Life Insurance Company and disability insurance is offered through Lincoln National Life Insurance Company. Tuition reimbursement is made directly to the employee, per Board Policy.

The Center provides dental insurance to full-time employees through Delta Dental.

**Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

Note 7 – Jointly Governed Organizations

Southwest Ohio Computer Association

The Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public schools and educational service centers within the boundaries of Butler, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts. The governing board of SWOCA consists of the superintendent (or the superintendent's designee) from each member district. The Center paid SWOCA \$35,675 for services provided during the year. Financial information can be obtained from the fiscal agent, Butler Tech, 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Educational Purchasing Cooperative

The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of 129 school districts, boards of developmental disabilities, and educational service centers in 18 counties. The purpose of the cooperative is to obtain reduced prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2012, the Center paid \$300 to SOEPC to be a member. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Ken S. Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377-1171.

Note 8 – Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

The Center participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

**Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012**

Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan

The Center participates in a group rating plan for workers' compensation as established under section 4123.29 of the Ohio Revised Code. The Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP) was established through the Southwestern Ohio Educational Purchasing Cooperative (SOEPC) as an insurance purchasing pool.

The GRP's business and affairs are conducted by a Board of Directors. The Executive Director of the SOEPC, or his designee, serves as coordinator of the program. Each year, the participating school districts and educational service centers pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 9 – Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2012, the Center contracted with Governmental Underwriters of America for property. Coverages provided are as follows:

Building and Contents (\$1,000 deductible)	\$3,130,587
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists Liability (\$1,000 deductible)	1,000,000
<i>General Liability:</i> Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Fire Damage Limit - Any One Event	500,000
<i>Employee Benefits Liability:</i> Each Occurrence	1,000,000
Aggregate Limit	3,000,000
<i>Employer's Liability:</i> Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Disease - Policy Limit	1,000,000
<i>Excess Liability – Umbrella Form</i> Each Occurrence	5,000,000
Aggregate Limit	5,000,000

Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

For fiscal year 2012, the Center also participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 8). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the EPC. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

For fiscal year 2012, the Center also participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 8). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting, Inc. provides administrative, cost control and actuarial services to the GRP.

Note 10 - State Funding

The Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from both State and local resources.

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of average daily memberships of all of the school districts served by the Center by \$37. This amount is provided from State resources.

Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

Note 11 – Contingencies

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms of 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 adverse effect on the overall financial position of the Center at June 30, 2012.

Note 12 – Interfund Transactions

Interfund transactions at June 30, 2012, consisted of the following transfers in and transfers out, advances in and advances out:

	Transfers		Advances	
	In	Out	In	Out
General Fund	\$0	\$304,039	\$482,034	\$102,126
ESC Work Site	304,168	0	6,414	304,168
Other Governmental Funds	0	129	95,713	177,867
Total All Funds	<u>\$304,168</u>	<u>\$304,168</u>	<u>\$584,161</u>	<u>\$584,161</u>

Interfund balances/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

Note 13 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Center is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Warren County Educational Service Center
Warren County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Fund Balances	General	ESC Work Site	Other Governmental Funds	Total
Restricted for:				
Other Grants	\$0	\$0	\$381,972	\$381,972
District School Bus Driver Training	0	0	74,756	74,756
Children's Trust	0	0	1,641	1,641
Management Information System	0	0	402	402
Data Communication	0	0	1,822	1,822
Miscellaneous State Grants	0	0	949	949
ESC Work Site	0	25,714	0	25,714
Total Restricted	0	25,714	461,542	487,256
Committed to:				
Termination Benefits	77,663	0	0	77,663
WCESC Scholarship	0	0	14,605	14,605
Total Committed	77,663	0	14,605	92,268
Assigned to:				
Encumbrances	425,099	0	0	425,099
Public School Support	61,170	0	0	61,170
Total Assigned	486,269	0	0	486,269
Unassigned (Deficit)	3,058,350	0	0	3,058,350
Total Fund Balance	<u>\$3,622,282</u>	<u>\$25,714</u>	<u>\$476,147</u>	<u>\$4,124,143</u>

Note 15 – Restatement of Fund Balance

The implementation of GASB 54 had the following effects on fund balance of the following major and non-major (other governmental) funds of the District as they were previously reported. As a result, Funds 011 (Special Needs Kids) and 014 (Alternative School) were included in the General Fund for fiscal year 2012.

	General Fund	Other Governmental Funds
Fund Balance, June 30, 2011	\$2,777,518	\$951,485
Change in Fund Structure	542,630	(542,630)
Fund Balance, June 30, 2011 - Restated	<u>\$3,320,148</u>	<u>\$408,855</u>



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*

Warren County Educational Service Center
Warren County
1879 Deerfield Road
Lebanon, Ohio 45036

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Warren County Educational Service Center, Warren County, Ohio (the Center), as of and for the year ended June 30, 2012, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 11, 2013, wherein we noted the Center uses a comprehensive accounting basis other than generally accepted accounting principles. 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*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-01.

We also noted certain matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated February 11, 2013.

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Center's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, Board of Education, and others within the Center. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

February 11, 2013

WARREN COUNTY EDUCATIONAL SERVICE CENTER
WARREN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2012

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

FINDING NUMBER 2012-01

Noncompliance

Ohio Revised Code, Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Also, at the time the report is filed with the Auditor of State, the chief fiscal officer shall publish notice in a newspaper published in the political subdivision or taxing Center. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer. Ohio Admin. Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Admin. Code, Section 117-2-03(B) requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Center prepares its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosure that, while material, cannot be determined at this time. The Center can be fined and various other administrative remedies may be taken against the Center. As such we recommend the Center prepare its annual financial report in accordance with generally accepted accounting principles.

In addition, the Center failed to provide notice in a local newspaper that the financial report was available for public inspection. We recommend the annual report be publicized in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

Officials' Response:

The school has considered both the cost and the benefits to filing GAAP statements in lieu of the currently used cash basis statements. At this time, we believe the cost savings and benefits to filing cash basis statements outweigh the costs and benefits to filing GAAP statements. The school will continue to evaluate the costs and benefits to filing cash basis statements annually in the event that a change needs to be made in the future.

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WARREN COUNTY EDUCATIONAL SERVICE CENTER
WARREN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	ORC 117.38 and OAC 1170-2-03(B) annual financial report not in accordance with GAAP	No	Reissued as Finding 2012-01

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WARREN COUNTY EDUCATIONAL SERVICE CENTER

WARREN 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
MARCH 5, 2013