



Dave Yost • Auditor of State



**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Shelby County Educational Service Center  
Shelby County  
129 East Court Street, 4<sup>th</sup> Floor  
Sidney, Ohio 45365

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby County Educational Service Center, Shelby County, Ohio (the Center), as of and for the year ended June 30, 2011, 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 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 modified 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby County Educational Service Center, Shelby County, Ohio, as of June 30, 2011, and the respective changes in modified cash financial position thereof for the fiscal year then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 3, as of July 1, 2010, the Center adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, resulting in the reclassification of one fund and restatement of beginning fund balances for governmental funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The budgetary comparison schedules for the General Fund and major special revenue funds, and the Schedule of Federal Awards Receipts and Expenditures that provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are not a required part of the basic financial statements. The budgetary comparison schedules for the General Fund and major special revenue funds and the Schedule of Federal Awards Receipts and Expenditures 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 schedules 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.



**Dave Yost**  
Auditor of State

December 6, 2011

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED**

The management's discussion and analysis of the Shelby County Educational Service Center's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2011, within the limitations of the Center's modified 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 modified cash basis basic financial statements and the notes to the modified cash basis financial statements to enhance their understanding of the Center's financial performance.

**Financial Highlights**

Key financial highlights for 2011 are as follows:

- In total, net cash assets of governmental activities increased \$204,623 which represents a 18.16% increase from 2010.
- General cash receipts accounted for \$456,707 or 8.50% of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$4,913,596 or 91.50% of total governmental activities cash receipts of \$5,370,303.
- The Center had \$5,165,680 in cash disbursements related to governmental activities; \$4,913,596 of these cash disbursements were offset by program specific charges for services and grants and contributions. General cash receipts supporting governmental activities (primarily unrestricted grants and entitlements) of \$456,707 were adequate to provide for these programs.
- The Center's major governmental funds are the general fund, alternative school fund and the miscellaneous federal grants fund. The general fund had \$3,729,977 in cash receipts and other financing sources and \$3,592,094 in cash disbursements. During fiscal year 2011, the general fund's fund cash balance increased \$137,883 from a restated balance of \$774,649 to \$912,532.
- The alternative school fund had \$576,698 in cash receipts and \$507,086 in cash disbursements. During fiscal year 2011, the alternative school fund's fund balance increased \$69,612 from \$286,777 to \$356,389.
- The miscellaneous federal grants fund had \$927,945 in cash receipts and \$924,269 in cash disbursements. During fiscal year 2011, miscellaneous federal grants fund's fund balance increased \$3,676 from \$15,556 to \$19,232.

**Using these Modified 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 modified cash basis of accounting.

The statement of net assets - modified cash basis and statement of activities - modified cash basis provide information about the activities of the whole Center, presenting both an aggregate view of the Center's modified cash basis 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 nonmajor funds presented in total in one column. In the case of the Center, the general fund, alternative school fund and the miscellaneous federal grants fund are by far the most significant funds, and the only governmental funds reported as major funds.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

**Reporting the Center as a Whole**

**Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified 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 cash basis financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets - modified cash basis and the statement of activities - modified cash basis answer this question. These statements include only net assets using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

These two statements report the Center's net cash assets and changes in those assets on a modified cash basis. This change in net cash assets is important because it tells the reader that, for the Center as a whole, the modified 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 required educational programs and other factors.

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

In the statement of net assets - modified cash basis and the statement of activities - modified cash basis, the governmental activities include the Center's programs and services, including instruction, support services, and other operations.

The Center's statement of net assets - modified cash basis and statement of activities - modified cash basis can be found on pages 11-12 of this report.

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

**Fund Financial Statements**

The analysis of the Center's major governmental funds begins on page 8. 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. The Center's major governmental funds are the general fund, the alternative school fund and the miscellaneous federal grants fund.

**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 modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund financial statements provide a detailed view of the Center's general government operations and the basic services it provides.



**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

Governmental fund information helps you determine whether there are more or fewer modified cash basis financial resources that can be spent in the near future to finance educational programs. Since the Center is reporting on the modified cash basis of accounting, there are no differences in the net assets and fund cash balances or changes in net assets and changes in fund balances. Therefore, no reconciliation is necessary between such financial statements.

However, differences will be apparent when comparing gross revenues and expenses on the fund financial statements to the statement of activities - modified cash basis due to advances between governmental funds being eliminated for reporting in the statement of activities - modified cash basis. The governmental fund statements can be found on pages 13-14 of this report.

**Reporting the Center's Fiduciary Responsibilities**

The Center is the trustee, or fiduciary, for scholarship programs. This activity is presented as a private-purpose trust fund. The Center also reports the external portion of monies invested on behalf of the Western Ohio Computer Organization and for Sidney City Schools, as its fiscal agent, in a separate investment trust fund. All of the Center's fiduciary activities are reported in separate statements of fiduciary net assets - modified cash basis and changes in fiduciary net assets - modified cash basis on pages 15 and 16. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 17-32 of this report.

**Supplementary Information**

The Center has presented budgetary comparison schedules for the general and the major special revenue funds as supplementary information on pages 33-35 of this report.

**The Center as a Whole**

Recall that the statement of net assets provides the perspective of the Center as a whole.

The table below provides a summary of the Center's net cash assets at June 30, 2011 and June 30, 2010.

	<b>Net Cash Assets</b>	
	<b>Governmental Activities 2011</b>	<b>Governmental Activities 2010</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$1,331,158	\$1,126,535
Total assets	1,331,158	1,126,535
<b>Net Cash Assets:</b>		
Restricted	418,626	368,997
Unrestricted	912,532	757,538
Total net cash assets	\$1,331,158	\$1,126,535

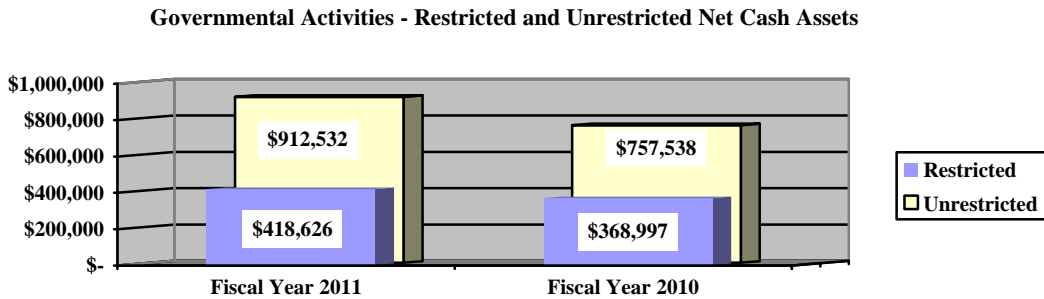
Over time, net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the Center's total net cash assets were \$1,331,158.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

A portion of the Center's net cash assets, \$418,626 represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net cash assets of \$912,532 may be used to meet the Center's ongoing obligations to students, school districts, and creditors.

The graph below presents the Center's governmental activities restricted and unrestricted net assets for fiscal year 2011 and 2010.



The table below shows the change in net cash assets for fiscal year 2011 and 2010.

<b>Change in Net Cash Assets</b>		
	<b>Governmental Activities 2011</b>	<b>Governmental Activities 2010</b>
<b>Cash Receipts:</b>		
<b>Program cash receipts:</b>		
Charges for services and sales	\$3,269,783	\$3,182,231
Operating grants and contributions	1,643,813	1,688,947
<b>General cash receipts:</b>		
Grants and entitlements	383,281	382,180
Investment earnings	2,000	5,976
Other	71,426	39,450
Total cash receipts	<u>5,370,303</u>	<u>5,298,784</u>
<b>Cash Disbursements:</b>		
<b>Program expenses:</b>		
<b>Instruction:</b>		
Regular	593,068	549,166
Special	1,273,683	1,435,644
<b>Support services:</b>		
Pupil	1,422,156	1,305,627
Instructional staff	968,059	1,258,008
Board of education	31,238	32,920
Administration	517,610	404,136
Fiscal	172,859	162,348
Business	10,185	4,087
Operations and maintenance	15,105	8
Pupil transportation	434	835
Central	143,718	151,568
Extracurricular	2,841	

(Continued)

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

**Change in Net Cash Assets  
(Continued)**

	<b>Governmental Activities 2011</b>	<b>Governmental Activities 2010</b>
<b>Debt service:</b>		
Principal retirement	10,404	9,341
Interest and fiscal charges	4,320	1,952
Total cash disbursements	<u>5,165,680</u>	<u>5,315,640</u>
Change in net cash assets	<u>204,723</u>	<u>(16,856)</u>
Net assets at beginning of year	<u>1,126,535</u>	<u>1,143,391</u>
Net assets at end of year	<u><u>\$1,331,158</u></u>	<u><u>\$1,126,535</u></u>

**Governmental Activities**

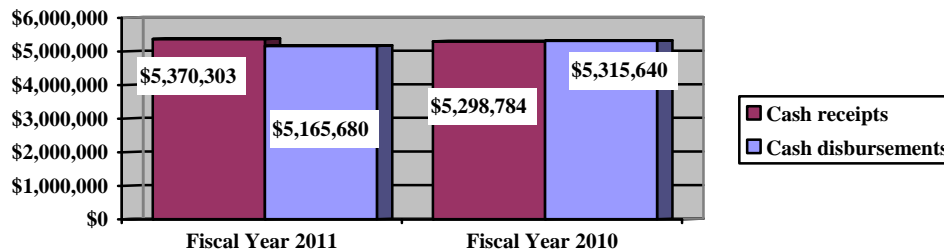
Net assets of the Center's governmental activities increased \$204,623. Total governmental cash disbursements of \$5,165,680 were offset by program cash receipts of \$4,913,596 and general cash receipts of \$456,707. Program cash receipts supported 95.12% of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 60.89% of total governmental cash receipts.

The largest cash disbursement of the Center is for support services. Support services cash disbursements totaled \$3,281,364 or 63.52% of total governmental cash disbursements for fiscal 2011.

The graph below presents the Center's governmental activities cash receipts and cash disbursements for fiscal year 2011 and 2010.

**Governmental Activities - Cash Receipts and Disbursements**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements. A comparative analysis between 2011 and 2010 is also shown.

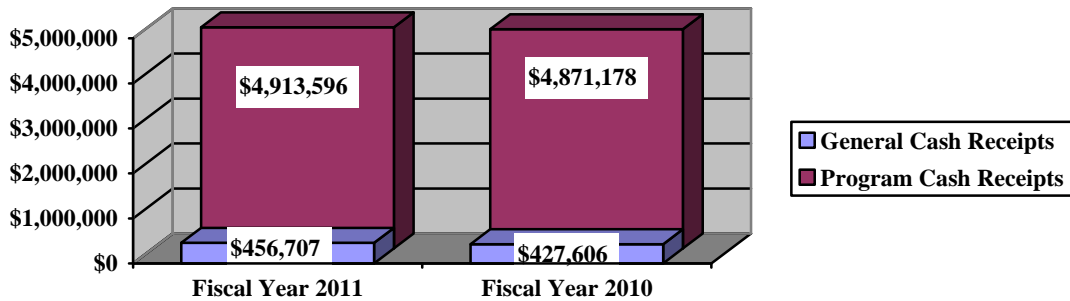
**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

	<b>Governmental Activities</b>			
	<b>Total Cost of Services 2011</b>	<b>Net Cost of Services 2011</b>	<b>Total Cost of Services 2010</b>	<b>Net Cost of Services 2010</b>
<b>Program cash disbursements</b>				
<b>Instruction:</b>				
Regular	\$ 593,068	(\$ 50,110)	\$ 549,166	(\$ 61,064)
Special	1,273,683	121,857	1,435,644	200,434
<b>Support services:</b>				
Pupil	1,422,156	96,002	1,305,627	134,406
Instructional staff	968,059	18,798	1,258,008	78,391
Board of education	31,238	2,488	32,920	2,008
Administration	517,610	18,456	404,136	33,740
Fiscal	172,859	16,535	162,348	23,488
Business	10,185	974	4,087	32
Operations and maintenance	15,105	(978)	8	1
Pupil transportation	434	(722)	835	(195)
Central	143,718	13,748	151,568	21,928
Extracurricular	2,841	312		
<b>Debt service:</b>				
Principal retirement	10,404	10,404	9,341	9,341
Interest and fiscal charges	4,320	4,320	1,952	1,952
<b>Total cash disbursements</b>	<b>\$ 5,165,680</b>	<b>\$252,084</b>	<b>\$5,315,640</b>	<b>\$444,462</b>

The graph below presents the Center's governmental activities cash receipts for fiscal year 2011 and 2010.

**Governmental Activities - General and Program Cash Receipts**



**The Center's Funds**

The Center's governmental funds (as presented on the balance sheet on page 13) reported a combined fund balance of \$1,331,158, which is a higher balance than last year's total restated balance of \$1,126,535 (as described in Note 3). The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2011 and 2010.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

	<b>Fund Cash Balance June 30, 2011</b>	<b>Restated Fund Cash Balance June 30, 2010</b>	<b>Increase/ Decrease</b>	<b>Percentage Change</b>
General	\$ 912,532	\$ 774,649	\$137,883	17.80 %
Alternative School	356,389	286,777	69,612	24.27 %
Miscellaneous Federal Grants	19,232	15,556	3,676	23.63 %
Other Governmental	43,005	49,553	(6,548)	(13.21) %
<b>Total</b>	<b>\$1,331,158</b>	<b>\$1,126,535</b>	<b>\$204,623</b>	<b>18.16 %</b>

**General Fund**

The Center's general fund cash balance increased \$137,883. Cash receipts exceeded cash disbursements for fiscal year 2011 by \$125,933. The table that follows assists in illustrating the cash financial activities of the general fund.

	<b>2011 Amount</b>	<b>Restated 2010 Amount</b>	<b>Increase (Decrease)</b>	<b>Percentage Change</b>
<b>Cash Receipts:</b>				
Contract services	\$3,254,636	\$3,148,781	\$105,855	3.36 %
Earnings on investments	2,000	5,980	(3,980)	(66.56) %
Other revenues	78,110	59,124	18,986	32.11 %
Intergovernmental	383,281	382,180	1,101	0.29 %
<b>Total</b>	<b>3,718,027</b>	<b>3,596,065</b>	<b>121,962</b>	<b>3.39 %</b>
<b>Cash Disbursements:</b>				
Instruction	1,322,599	1,419,689	(97,090)	(6.84) %
Support services	2,252,401	2,221,042	31,359	1.41 %
Extracurricular	2,841		2,841	100.00 %
Debt service	14,253	10,759	3,494	32.48 %
<b>Total</b>	<b>\$3,592,094</b>	<b>\$3,651,490</b>	<b>(\$ 59,396)</b>	<b>(1.63) %</b>

The most significant increase in cash receipts occurred in contract service revenue receipts. The increase in contract service revenue receipts was due to an increase in the services provided to other schools. The decrease in earnings on investments was due primarily to the decrease in interest rates by the Federal Reserve. The decrease in cash disbursements in instruction was due primarily to the decrease in employee salaries and insurance.

**Alternative School Fund**

The alternative school fund had \$576,698 in cash receipts and \$507,086 in cash disbursements. During fiscal year 2011, the alternative school fund's fund cash balance increased \$69,612 from \$286,777 to \$356,389.

**Miscellaneous Federal Grants Fund**

The miscellaneous federal grants fund had \$927,945 in cash receipts and \$924,269 in cash disbursements. During fiscal year 2011, the miscellaneous federal grants fund's fund cash balance increased \$3,676 from \$15,556 to \$19,232.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
UNAUDITED  
(Continued)**

**Capital Assets and Debt Administration**

**Capital Assets**

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

**Debt Administration**

At June 30, 2011, the Center had \$48,293 in capital lease obligations. Of this total, \$11,267 is due within one year and \$37,026 is due within greater than one year.

The Center is not permitted to issue debt. See Note 7 to the modified cash basis financial statements for additional information on the Center's capital leases.

**Current Financial Related Activities**

Overall, the Center is strong financially. As the preceding information shows, the Center relies heavily on contracts with local and city districts in Shelby County, State foundation revenue and grants. During fiscal year 2011, the Center met with the districts in Shelby County to identify services they wished to be continued and those they no longer felt were necessary. As a result, some curriculum services will cease. Continuing contracts, along with the Center's cash balance will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2012. Still, the future financial stability of the Center is not without challenges.

The first challenge is that the Center will be affected by the decline in enrollment in Shelby County over the past few years and the projected decline in the future. The Center receives funding based on the ADM of Shelby County school districts, so the continued decline will directly impact State funding. The Center constantly strives to provide more services in the most cost efficient manner.

Second, the Center has again been notified of extensive budget cuts from the State, 10% for fiscal year 2012, and an additional 15% for fiscal year 2013. While the Center has applied to other sources for funding and has made budget cuts, any shortfall in the revenue will fall on the Shelby County districts, which will have to increase their share of funding to continue the programs.

The Center's systems of budgeting and internal controls are well regarded. All of the Center's financial abilities will be needed to meet the financial challenges of the future. To counterbalance the loss of revenue from the State and district services mentioned above, the Center will implement a virtual learning academy, in fiscal year 2012, to serve the students in Shelby County and generate necessary revenue for operating expenses. The Center is also implementing shared services with neighboring Educational Service Centers, and researching other shared service opportunities with local government agencies.

With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality products and services to the districts in the future.

**Contacting the Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Cathy Doseck, Treasurer, Shelby County Educational Service Center, 129 E. Court St., Annex Building, Sidney, Ohio 45365.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2011**

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$1,331,158
Total assets	<u>1,331,158</u>
<b>Net Assets:</b>	
<b>Restricted for:</b>	
Locally funded programs	39,548
State funded programs	3,457
Federally funded programs	19,232
Other purposes	356,389
Unrestricted	912,532
Total net cash assets	<u><u>\$1,331,158</u></u>

*See accompanying notes to the basic financial statements.*

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Cash</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements)</u>
	<u>Disbursements</u>	<u>Charges for</u>	<u>Operating Grants</u>	<u>Receipts and</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>Changes in</u>
				<u>Net Cash Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
<b>Governmental activities:</b>				
<b>Instruction:</b>				
Regular	\$593,068	\$48,826	\$594,352	\$50,110
Special	1,273,683	1,151,314	512	(121,857)
<b>Support services:</b>				
Pupil	1,422,156	947,325	378,829	(96,002)
Instructional staff	968,059	482,994	466,267	(18,798)
Board of education	31,238	28,250	500	(2,488)
Administration	517,610	308,663	190,491	(18,456)
Fiscal	172,859	156,324		(16,535)
Business	10,185	9,211		(974)
Operations and maintenance	15,105	4,256	11,827	978
Pupil transportation	434	1,156		722
Central	143,718	129,970		(13,748)
Extracurricular activities	2,841	1,494	1,035	(312)
<b>Debt service:</b>				
Principal retirement	10,404			(10,404)
Interest and fiscal charges	4,320			(4,320)
<b>Total governmental activities</b>	<u>\$5,165,680</u>	<u>\$3,269,783</u>	<u>\$1,643,813</u>	<u>(252,084)</u>
<b>General cash receipts:</b>				
				383,281
Grants and entitlements not restricted to specific programs				2,000
Investment earnings				71,426
Miscellaneous				<u>456,707</u>
<b>Total general cash receipts</b>				
Change in net cash assets				204,623
Net cash assets at beginning of year				<u>1,126,535</u>
Net cash assets at end of year				<u>\$1,331,158</u>

See accompanying notes to the basic financial statements.



**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	<u>General</u>	<u>Alternative Schools</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents	\$912,532	\$356,389	\$19,232	\$43,005	\$1,331,158
Total assets	<u>912,532</u>	<u>356,389</u>	<u>19,232</u>	<u>43,005</u>	<u>1,331,158</u>
<b>Fund Balances:</b>					
<b>Restricted:</b>					
Other purposes			19,232	43,005	62,237
<b>Committed:</b>					
Other purposes		356,389			356,389
<b>Assigned:</b>					
Student instruction	8,798				8,798
Student and staff support	49,764				49,764
Unassigned	853,970				853,970
Total fund balances	<u>912,532</u>	<u>356,389</u>	<u>19,232</u>	<u>43,005</u>	<u>1,331,158</u>
Total liabilities and fund balances	<u>\$912,532</u>	<u>\$356,389</u>	<u>\$19,232</u>	<u>\$43,005</u>	<u>\$1,331,158</u>

*See accompanying notes to the basic financial statements.*

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES  
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>General</u>	<u>Alternative Schools</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Cash receipts:</b>					
<b>From local sources:</b>					
Earnings on investments	\$2,000				\$2,000
Extracurricular	2,044				2,044
Contributions and donations	4,640	\$29,500		\$1,187	35,327
Contract services	3,254,636			13,103	3,267,739
Other local revenues	71,426	928			72,354
Intergovernmental - intermediate	1,147	546,270		90,828	638,245
Intergovernmental - state	382,134			29,880	412,014
Intergovernmental - federal			927,945	12,635	940,580
Total cash receipts	<u>3,718,027</u>	<u>576,698</u>	<u>927,945</u>	<u>147,633</u>	<u>5,370,303</u>
<b>Cash disbursements:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular	48,916	381,682	107,662	54,808	593,068
Special	1,273,683				1,273,683
<b>Support services:</b>					
Pupil	1,039,773		315,174	67,209	1,422,156
Instructional staff	504,725	12,188	433,610	17,536	968,059
Board of education	31,238				31,238
Administration	344,763	102,346	67,823	2,678	517,610
Fiscal	172,859				172,859
Business	10,185				10,185
Operations and maintenance	4,706	10,399			15,105
Pupil transportation	434				434
Central	143,718				143,718
Extracurricular activities	2,841				2,841
<b>Debt service:</b>					
Principal retirement	10,067	337			10,404
Interest and fiscal charges	4,186	134			4,320
Total cash disbursements	<u>3,592,094</u>	<u>507,086</u>	<u>924,269</u>	<u>142,231</u>	<u>5,165,680</u>
Excess of cash receipts over cash disbursements	<u>125,933</u>	<u>69,612</u>	<u>3,676</u>	<u>5,402</u>	<u>204,623</u>
<b>Other financing sources (uses):</b>					
Advances in	11,950				11,950
Advances (out)				(11,950)	(11,950)
Total other financing sources (uses)	<u>11,950</u>			<u>(11,950)</u>	
Net change in fund balances	137,883	69,612	3,676	(6,548)	204,623
Fund cash balances at beginning of year (restated)	774,649	286,777	15,556	49,553	1,126,535
Fund cash balances at end of year	<u>\$912,532</u>	<u>\$356,389</u>	<u>\$19,232</u>	<u>\$43,005</u>	<u>\$1,331,158</u>

See accompanying notes to the basic financial statements.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2011**

	<b>Private - Purpose Trust</b>	<b>Investment Trust</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$29,797	\$835,047
Investments (Stock)	15,452	15,452
Total assets	45,249	850,499
<b>Net assets:</b>		
Held in trust for scholarships	45,249	
Net cash assets available to pool participants		850,499
Total net cash assets	\$45,249	\$850,499

*See accompanying notes to the basic financial statements.*

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Private - Purpose Trust</u>	<u>Investment Trust</u>
<b>Additions:</b>		
Interest	\$5,804	\$7,134
Gifts and contributions	3,320	
Capital transactions		111,533
Total additions	<u>9,124</u>	<u>118,667</u>
<b>Deductions:</b>		
Distributions to participants		7,134
Scholarships awarded	11,400	
Total deductions	<u>11,400</u>	<u>7,134</u>
Change in net assets	(2,276)	111,533
Net assets at beginning of year	<u>47,525</u>	<u>738,966</u>
Net assets at end of year	<u><u>\$45,249</u></u>	<u><u>\$850,499</u></u>

*See accompanying notes to the basic financial statements.*

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**1. DESCRIPTION OF THE ENTITY**

The Shelby County Educational Service Center (the "Center") is a political subdivision of the State of Ohio. It is the successor to the former Shelby County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On July 1, 1995, the Shelby County Board of Education formally adopted these changes and became henceforth the "Governing Board of the Shelby County Educational Service Center".

The Center is located at 129 East Court Street, Sidney, Ohio in offices provided by the Shelby County Commissioners, as provided by Ohio Revised Code 3319.19.

The Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The Center is staffed by 47 non-certified and 41 certified employees to provide services to approximately 5,111 students in seven local districts throughout the County.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.B., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these modified cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government 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 of the Center.

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; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government).

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The following organizations are described due to their relationship to the Center:

**1. Jointly Governed Organizations**

**Western Ohio Computer Organization (WOCO)**

WOCO is a jointly governed organization composed of 29 member school districts. It 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 districts. Each of the governments of these schools supports WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. WOCO is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any participating school district is limited to its representation on the board. In accordance with GASB Statement No. 14, the Center does not have an equity interest in WOCO as the residual interest in the net resources of an organization upon dissolution is not equivalent to an equity interest.

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

**Southwestern Ohio Educational Purchasing Cooperative (SOEPC)**

The SOEPC is a purchasing cooperative made up of 129 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, and 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. Payments to SOEPC are made from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Ken Swink, who serves as Director, at 303 Corporate Center Drive Suite 208, Vandalia, Ohio 45377.

**Shelby County Schools Consortium**

The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick, dental, and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Medical Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district and the Center.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Public Entity Risk Pool**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan**

The Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen member committee consisting of various GRP representatives that are elected by 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 GRP to cover the costs of administering the program.

**B. Basis of Accounting**

As required by Ohio Administrative Code Section 117-2-03(B), the Center prepared and filed its annual financial report with the Auditor of State in accordance with generally accepted accounting principles. However, the Center chooses to prepare (for audit procedures) its financial statements and notes in accordance with the modified cash basis of accounting.

The Center's financial statements are prepared using the modified cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursement basis. The Center recognizes revenues when received in cash rather than when earned and recognizes expenditures when paid rather than when a liability is incurred.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenue (such as accounts receivable and revenue billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received, but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**C. Fund Accounting**

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Center has no proprietary funds.

**1. Governmental Funds**

Governmental funds are those through which most governmental functions of the Center are financed. Governmental fund reporting focuses on the sources, uses and balances of the current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Center's major governmental funds:

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Alternative Schools** - The alternative school fund is used to account for money committed to alternative educational programs for existing and new at-risk and delinquent youth.

**Miscellaneous Federal Grants** - The miscellaneous federal grants fund is used to account for various monies received and restricted by the federal government.

Other governmental funds of the Center are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes.

**2. Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has a private-purpose trust which accounts for scholarship programs for students. The investment trust fund is used to account for monies held on behalf of Western Ohio Computer Organization (WOCO) for which the Center is fiscal agent and to account for a stock bequest benefiting Sidney City School District.

**D. Basis of Presentation**

**1. Government-wide Financial Statements**

The statement of net assets-modified cash basis and the statement of activities-modified 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 modified cash basis or draws from the general receipts of the Center.

**2. Fund Financial Statements**

The Center segregates transactions related to certain Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Center at a more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.



**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process**

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

In fiscal year 2004, the Center requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated resources. The Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. Budgetary information for the general fund and the major special revenue funds have been presented as supplementary information to the basic financial statements.

**F. Cash and Investments**

To improve cash management, cash received by the Center is pooled in a central bank account. 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.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2011, investments were limited to nonnegotiable certificates of deposit, common stock (see below), and a U.S. Government money market. Nonparticipating investment contracts such as certificates of deposit are reported at cost.

While common stock is not an allowable investment according to Ohio statute, the Center has been endowed with a gift of stock for its private-purpose trust fund. A portion of this stock is due to the Sidney City School District and is reported as an investment trust fund (See Notes 4 and 5). No public funds were used to acquire the stock. The stock is reported at cost which is based on the initial acquisition prices.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless the Center has adopted a resolution authorizing interest to be credited to specific funds. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$2,000, which includes \$1,248 assigned from other Center funds.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Capital Assets**

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the modified cash basis of accounting. Depreciation has not been reported for any capital assets.

**H. 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 modified cash basis of accounting.

**I. Employer Contributions to Cost-Sharing Pension Plans**

The Center recognizes the disbursements for employer contributions to cost sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for post retirement health care benefits.

**J. Long-Term Obligations**

Capital lease obligations are not recognized as a liability in the financial statements under the modified cash basis of accounting. The Center is not permitted to obtain debt beyond capital lease obligations.

**K. Fund Cash Balance**

The Center reports classifications of fund cash balance based on the extent to which the Center is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The following categories are used:

**Non-spendable** - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally required to be maintained intact.

**Restricted** - amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed** - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Center's highest level of decision-making authority, the Governing Board.

**Assigned** - amounts that are constrained by the Center's intent to be used for specific purpose, but are neither restricted nor committed. Assigned amounts include those approved through the Center's formal purchasing procedure by the Treasurer. Through the Center's purchasing policy, the Governing Board has given the Treasurer the authority to constrain monies for intended purposes.

**Unassigned** - residual fund balance within the general fund that is in spendable form that is not restricted, committed, or assigned.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**L. 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.

**M. Interfund Activity**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements.

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2011, the Center has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the Center.

**B. Fund Reclassifications/Restatement of Fund Balance**

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the Center's governmental fund balances as previously reported:

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**3. ACCOUNTABILITY AND COMPLIANCE (Continued)**

	<u>General</u>	<u>Alternative Schools</u>	<u>Miscellaneous Federal Grants</u>	<u>Non-major Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$757,538	\$286,777	\$15,556	\$66,664	\$1,126,535
<b>Fund reclassifications:</b>					
Public school support fund	17,111			(17,111)	
Total fund reclassifications	17,111			(17,111)	
Restated fund balance at July 1, 2010	<u>\$774,649</u>	<u>\$286,777</u>	<u>\$15,556</u>	<u>\$49,553</u>	<u>\$1,126,535</u>

The fund reclassifications did not have an effect on net assets as previously reported.

**4. DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Governing Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1 or 2) above and repurchase agreements secured by such obligations, provided that investments in such securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At fiscal year end, the Center had \$75 in undeposited cash on hand which is included on the financial statements as part of "equity in pooled cash and cash equivalents".

**B. Deposits with Financial Institutions**

At June 30, 2011, the carrying amount of all Center deposits was \$2,195,713. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$712,561 of the Center's bank balance of \$2,290,571 was exposed to custodial risk as discussed below, while \$1,578,010 was covered by FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

**C. Investments**

As of June 30, 2011, the Center had the following investments and maturities:

<u>Investment type</u>	<u>Carrying Value</u>	<u>Market Value</u>	<u>6 months or less</u>	<u>Indefinite</u>
Stock	\$30,904	\$423,834		\$423,834
U. S. Government money market	214	214	\$214	
Total	<u>\$31,118</u>	<u>\$424,048</u>	<u>\$214</u>	<u>\$423,834</u>

**Interest Rate Risk:** As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Center's investment policy limits investment portfolio maturities to five years or less, except for the stock portfolio which has been invested as required by the trust agreement.

**Custodial Credit Risk:** For an investment, 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 investment or collateral securities that are in the possession of an outside party. The stock portfolio is in the name of the Center and is not subject to custodial credit risk. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**Credit Risk:** The Center's U.S. Government money market carries a rating of AAAM by Standard & Poor's. The Center's stocks were rated ranging from AAA to BB, Aaa to B1, and AAA to BB+ by Standard & Poor's, Moody's Investor Services, and Fitch Ratings, respectively. The Center has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk:** The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2011:

<u>Investment type</u>	<u>Market Value</u>	<u>% to Total</u>
Stock	\$423,834	99.95
U.S. Government money market	214	0.05
Total	<u>\$424,048</u>	<u>100.00</u>

**D. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments reported in the note above to cash as reported on the statement of net assets-modified cash basis as of June 30, 2011:

<u>Cash and investments per note:</u>	<u>Carrying Value</u>
Carrying amount of deposits	\$2,195,713
Investments	31,118
Cash on hand	75
Total	<u>\$2,226,906</u>

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

<b>Cash and investments per statement of net assets</b>	<b>Carrying Value</b>
Governmental activities	\$1,331,158
Private-purpose trust funds	45,249
Investment trust fund	850,499
Total	\$2,226,906

**5. INVESTMENT POOL**

The Center serves as fiscal agent for WOCO and maintains stock that was bequeathed to the Center and to Sidney City School District. These activities make up the external portion of the investment pool. The Center pools the monies of these activities with the Center's cash for investment purposes. The Center cannot allocate its investments between the internal and external investment pools.

The investment pool is not registered with the Security and Exchange Commission as an investment company. The pool does not issue shares. WOCO is allocated a pro rata share of each investment along with a pro rata share of the interest that it earns. WOCO's share of the investment portfolio is presented in a separate investment trust fund. The Center maintains stock that was bequeathed to the Center and to the Sidney City School District. Each entity is entitled to 50 percent of the stock value. The portion of the stock that is due to the Sidney City School District is reported in a separate investment trust fund. Condensed cash basis financial information for the investment pool follows:

**Statement of Net Assets  
June 30, 2011**

<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,196,002
Investments	30,904
Total Assets	2,226,906
<b>Net Assets Held in Trust for Pool Participants</b>	
Internal Portion	1,376,407
External Portion	850,499
Total Net Assets Held in Trust for Pool Participants	\$2,226,906

**Statement of Changes in Net Assets  
For Fiscal Year Ended June 30, 2011**

<b>Additions:</b>	
Capital Transactions	\$ 313,880
Interest	14,938
Total Additions	328,818
<b>Deductions:</b>	
Distributions to Participants	14,938
Total Deductions	14,938
Change in Net Assets	313,880
Net Assets, Beginning of Year	1,913,026
Net Assets, End of Year	\$2,226,906

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**5. INVESTMENT POOL (Continued)**

Deposits and investments of the investment pool mirror those of the Center. There are no differences between the deposits and investments of the Center and those of the investment pool. See Note 4 for the investment pools classifications of deposits and investments by categories of risk as defined in GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

**6. INTERFUND TRANSACTIONS**

Interfund advances for the year ended June 30, 2011, consisted of the following, as reported on the fund financial statements:

Advances from non-major governmental funds to:	
General fund	\$11,950

The primary purpose of the interfund advances is to cover costs in specific funds where revenues were not received by June 30. The interfund advance was made to repay an advance made in the prior fiscal year from the general fund.

Interfund advances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2011 are reported on the statement of net assets-modified cash basis.

**7. CAPITAL LEASES - LESSEE DISCLOSURE**

In prior fiscal years, the Center entered into capital leases for copiers. The terms of each lease agreement provide an option to purchase the copier. These leases meet the criteria of a capital lease as defined by Statement No. 13 of the FASB, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments are reflected as debt service expenditures in the governmental fund financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments in fiscal year 2011 totaled \$10,404. This amount is reflected as debt service principal retirement in the general fund and in the alternative schools fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2011:

<b>Fiscal Year Ending June 30,</b>	<b>Amount</b>
2012	\$14,723
2013	14,724
2014	14,723
2015	12,032
Total minimum lease payments	56,202
Less amount representing interest	(7,909)
<b>Total</b>	<b>\$48,293</b>



**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**8. RISK MANAGEMENT**

**A. Comprehensive and Employee Health**

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. The Center has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the Center to the commercial company. The Center continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in coverage.

**B. Workers' Compensation**

For fiscal year 2011, the Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The Plan is intended 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 members are calculated as one experience and a common premium rate is applied to all members 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 performances are compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the GRP.

**9. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

**Plan Description** - The Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$203,337, \$227,541 and \$155,458, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. 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 plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

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

**Funding Policy** - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$265,889, \$253,774 and \$224,654, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2011, certain members of the Governing Board have elected Social Security. The Center's liability is 6.2 percent of wages paid.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**10. POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

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

**Funding Policy** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401(h). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the Healthcare Plan. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$60,400, \$34,067 and \$103,608, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$13,085, \$13,531 and \$12,827, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**10. POSTEMPLOYMENT BENEFITS (Continued)**

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

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

**Funding Policy** - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$20,453, \$19,521 and \$17,281, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**11. CONTINGENCIES**

**Grants**

The Center receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

**12. OTHER COMMITMENTS**

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

<u>Fund Type</u>	<u>Year-End Encumbrances</u>
General fund	\$ 43,998
Alternative schools fund	19,428
Miscellaneous federal grants fund	54,317
Other governmental	494
Total	<u>\$118,237</u>

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>Budgetary basis receipts:</b>				
<b>From local sources:</b>				
Earnings on investments	\$6,000	\$2,000	\$2,000	
Contract services	3,416,528	3,185,705	3,210,748	\$25,043
Other local revenues	66,978	68,080	70,526	2,446
Intergovernmental - intermediate		1,150	1,147	(3)
Intergovernmental - state	382,200	382,200	382,134	(66)
Total budgetary basis receipts	<u>3,871,706</u>	<u>3,639,135</u>	<u>3,666,555</u>	<u>27,420</u>
<b>Budgetary basis disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	57,300	49,370	48,916	454
Special	1,347,200	1,309,600	1,282,098	27,502
<b>Support services:</b>				
Pupil	1,145,600	1,056,250	1,054,327	1,923
Instructional staff	527,700	497,300	490,430	6,870
Board of education	44,800	51,260	39,707	11,553
Administration	342,500	340,170	337,024	3,146
Fiscal	181,600	175,050	172,863	2,187
Business	15,700	12,940	11,210	1,730
Operations and maintenance	7,200	4,720	4,706	14
Central	159,820	151,060	150,723	337
Total budgetary basis disbursements	<u>3,829,420</u>	<u>3,647,720</u>	<u>3,592,004</u>	<u>55,716</u>
Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements	<u>42,286</u>	<u>(8,585)</u>	<u>74,551</u>	<u>83,136</u>
<b>Other financing sources (uses):</b>				
Advances in	11,950	11,950	11,950	
Advances (out)	(100,000)			
Total other financing sources (uses)	<u>(88,050)</u>	<u>11,950</u>	<u>11,950</u>	
Net change in fund balance	(45,764)	3,365	86,501	83,136
Fund balance at beginning of year (restated).	673,103	673,103	673,103	
Prior year encumbrances appropriated	46,174	46,174	46,174	
Fund balance at end of year	<u>\$673,513</u>	<u>\$722,642</u>	<u>\$805,778</u>	<u>\$83,136</u>

See accompanying notes to the budgetary comparison schedules.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**BUDGETARY COMPARISON SCHEDULE  
ALTERNATIVE SCHOOLS FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
<b>Budgetary basis receipts:</b>				
<b>From local sources:</b>				
Contributions and donations	\$26,651	\$29,737	\$29,500	(\$237)
Other local revenues	838	935	928	(7)
Intergovernmental - intermediate	493,511	550,648	546,270	(4,378)
Total budgetary basis receipts	<u>521,000</u>	<u>581,320</u>	<u>576,698</u>	<u>(4,622)</u>
<b>Budgetary basis disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	447,959	400,119	389,845	10,274
<b>Support services:</b>				
Instructional staff	14,005	12,509	12,188	321
Administration	117,602	105,043	102,346	2,697
Operations and maintenance	25,435	22,718	22,135	583
Total budgetary basis disbursements	<u>605,001</u>	<u>540,389</u>	<u>526,514</u>	<u>13,875</u>
Net change in fund balance	(84,001)	40,931	50,184	9,253
Fund balance at beginning of year	283,037	283,037	283,037	
Prior year encumbrances appropriated	3,740	3,740	3,740	
Fund balance at end of year	<u>\$202,776</u>	<u>\$327,708</u>	<u>\$336,961</u>	<u>\$9,253</u>

*See accompanying notes to the budgetary comparison schedules.*

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**BUDGETARY COMPARISON SCHEDULE  
MISCELLANEOUS FEDERAL GRANTS FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Budgetary basis receipts:</b>				
Intergovernmental - federal	\$1,028,299	\$963,105	\$927,945	(\$35,160)
Total budgetary basis receipts	<u>1,028,299</u>	<u>963,105</u>	<u>927,945</u>	<u>(35,160)</u>
<b>Budgetary basis disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	133,223	128,133	128,123	10
<b>Support services:</b>				
Pupil	327,720	315,198	315,174	24
Instructional staff	486,075	467,502	467,466	36
Administration	70,523	67,828	67,823	5
Total budgetary basis disbursements	<u>1,017,541</u>	<u>978,661</u>	<u>978,586</u>	<u>75</u>
Net change in fund balance	10,758	(15,556)	(50,641)	(35,085)
Fund balance (deficit) at beginning of year	(24,321)	(24,321)	(24,321)	
Prior year encumbrances appropriated	39,877	39,877	39,877	
Fund balance (deficit) at end of year	<u>\$26,314</u>	<u>\$0</u>	<u>(\$35,085)</u>	<u>(\$35,085)</u>

*See accompanying notes to the budgetary comparison schedules.*

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**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE BUDGETARY COMPARISON SCHEDULES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 1 - BUDGETARY PROCESS**

The Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Center Board does follow the budgetary process for control purposes.

The Center's Governing Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The Center Governing Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

**NOTE 2 - BUDGETARY BASIS OF ACCOUNTING**

While 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 budgetary comparison schedule presented for the general fund, the alternative schools fund, and the miscellaneous federal grants 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 and are treated as disbursements (budget) rather than a reservation of fund balance (cash).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund, alternative school fund and the miscellaneous federal grants fund:

<b>Net Change in Fund Cash Balance</b>			
	<b>General fund</b>	<b>Alternative School fund</b>	<b>Miscellaneous Federal Grants fund</b>
Cash basis	\$137,883	\$69,612	\$ 3,676
Funds budgeted elsewhere **	(23,997)		
Adjustment for encumbrances	(27,385)	(19,428)	(54,317)
Budget basis	\$ 86,501	\$50,184	(\$50,641)

\*\* As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special enterprise fund and the public school support fund.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE BUDGETARY COMPARISON SCHEDULES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**NOTE 3 - BUDGETARY PRIOR YEAR ADJUSTMENT**

**Budgetary Prior Period Adjustment**

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. Pursuant to GASB Statement No. 54, only the legally budgeted general fund should be reported in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

<u>Budgetary Basis</u>	<u>General</u>
Fund balance at June 30, 2010	\$703,286
Funds budgeted elsewhere	(30,183)
Restated fund balance at July 1, 2010	<u>\$673,103</u>

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Expenditures</b>
<b>U.S. Department of Education</b>			
<i>Direct Aid</i>			
Fund For the Improvement of Education:			
Elementary and Secondary School Counseling Programs	84.215E	\$383,345	\$384,688
Teaching American History	84.215X	<u>166,601</u>	<u>166,601</u>
Total Fund For the Improvement of Education		<u>549,946</u>	<u>551,289</u>
 <i>Passed Through Ohio Department of Education</i>			
Special Education Cluster:			
Special Education Preschool Grants	84.173	12,635	12,635
Twenty-First Century Community Learning Centers	84.287	<u>363,000</u>	<u>360,632</u>
Total U.S. Department of Education		<u>925,581</u>	<u>924,556</u>
 <b>Corporation of National and Community Service</b>			
<i>Passed Through Ohio Department of Education</i>			
Learn and Serve America School and Community Based Programs	94.004	15,000	12,349
 <b>U.S. Department of Health and Human Services</b>			
<i>Passed Through Ohio Department of Job and Family Services</i>			
<i>Passed Through Shelby County Department of Job and Family Services</i>			
Temporary Assistance for Needy Families	93.558	9,384	9,383
 <b>U.S. Department of Labor</b>			
<i>Passed Through Ohio Department of Job and Family Services</i>			
<i>Passed Through Shelby County Department of Job and Family Services</i>			
Workforce Investment Act - Youth Activities	17.259	<u>54,577</u>	<u>42,509</u>
Total Federal Financial Assistance		<u>\$1,004,542</u>	<u>\$988,797</u>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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



# 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*

Shelby County Educational Service Center  
Shelby County  
129 East Court Street, 4<sup>th</sup> Floor  
Sidney, Ohio 45365

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby County Educational Service Center, Shelby County, (the Center) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 6, 2011 wherein we noted the Center used a comprehensive basis of accounting other than generally accepted accounting principles and the Center adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 opinion 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 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 Governing Board, and federal awarding agencies and pass-through entities and others within the Center. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

**Dave Yost**  
Auditor of State

December 6, 2011



# Dave Yost • Auditor of State

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

Shelby County Educational Service Center  
Shelby County  
129 East Court Street, 4<sup>th</sup> Floor  
Sidney, Ohio 45365

To the Governing Board:

### Compliance

We have audited the compliance of the Shelby County Educational Service Center, Shelby County (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Shelby County Educational Service Center's major federal program for the fiscal year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Shelby County Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2011.

### Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

**Internal Control Over Compliance  
(Continued)**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Center's management in a separate letter dated December 6, 2011.

We intend this report solely for the information and use of the audit committee, management, the Governing Board, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

December 6, 2011



**SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	<b>Fund for the Improvement of Education CFDA#84.215;</b> (Elementary and Secondary School Counseling Programs CFDA 84.215E, and Teaching American History CFDA 84.215X)
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

None

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

None

SHELBY COUNTY EDUCATIONAL SERVICE CENTER  
SHELBY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2010-001	Material Weakness – Overstatement of Intergovernmental Revenue and Fund Balance	Yes	



# Dave Yost • Auditor of State

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER**

**SHELBY 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 27, 2011**