



Dave Yost • Auditor of State

**SOUTHERN OHIO EDUCATIONAL SERVICE CENTER
CLINTON COUNTY**

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**SOUTHERN OHIO EDUCATIONAL SERVICE CENTER
CLINTON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Southern Ohio Educational Service Center
Clinton County
3321 Airborne Rd.
Wilmington, Ohio 45177

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Southern Ohio Educational Service Center, Clinton 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.

As described in Note 17, during the year ended June 30, 2011, the Center adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major funds, and the aggregate remaining fund information of Southern Ohio Educational Service Center, Clinton County, Ohio, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated (DATE), 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 and the required budgetary comparison schedules* for the General Fund and the Improving Teacher Quality fund 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 federal awards receipts and expenditures schedule provides additional information is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

December 21, 2011

**Southern Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

The discussion and analysis of Southern Ohio Educational Service Center's financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center's performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- Net assets of governmental activities decreased \$7,704 which indicates a 95% improvement from the 2010 loss.
- General revenues accounted for \$835,359 in revenue or 23% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,813,582 or 77% of total revenues of \$3,648,941 .
- The Center had \$3,656,645 in expenses related to governmental activities; \$2,813,582 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$835,359 were also used to provide for these programs.

Overview of the Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other nonmajor funds presented in total in one column. The General Fund and the Improving Teacher Quality Fund are the major funds of the Center.

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The Government-wide Financial Statements answer this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-

**Southern Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

financial. Non-financial factors include facility conditions, required educational programs and other factors.

In the Government-wide Financial Statements, the Center presents:

- Governmental Activities – Most of the Center's programs and services are reported here including instruction and support services.

Fund Financial Statements

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

Governmental Funds Most 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 an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Center's own programs.

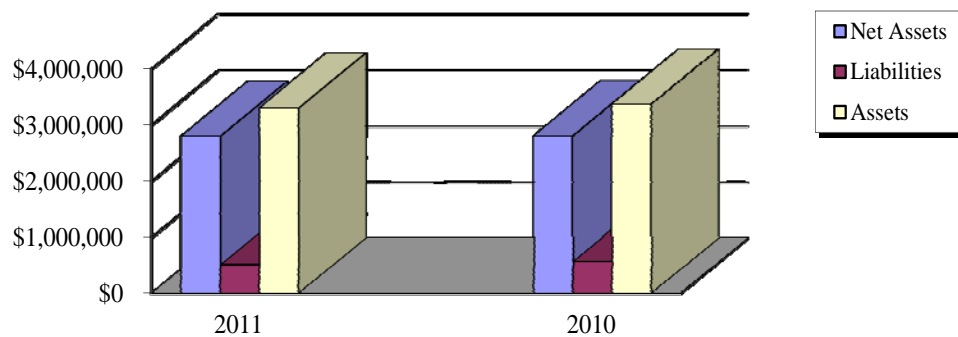
**Southern Ohio Educational Service Center
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

The Center as a Whole

As stated previously, the Statement of Net Assets looks at the Center as a whole. Table 1 provides a summary of the District’s net assets for 2011 compared to 2010:

Table 1
Net Assets

	Governmental Activities	
	2011	2010
Assets:		
Current and Other Assets	\$2,909,541	\$2,961,142
Capital Assets	387,452	406,262
Total Assets	3,296,993	3,367,404
Liabilities:		
Other Liabilities	216,457	248,704
Long-Term Liabilities	287,684	318,144
Total Liabilities	504,141	566,848
Net Assets:		
Invested in Capital Assets	387,452	406,262
Restricted	261,553	162,987
Unrestricted	2,143,847	2,231,307
Total Net Assets	\$2,792,852	\$2,800,556



Over time, net assets can serve as a useful indicator of a government’s financial position. At June 30, 2011, the District’s assets exceeded liabilities by \$2,792,852 .

**Southern Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

At year-end, capital assets represented 12% of total assets. Capital assets include land, buildings and improvements, and equipment. Capital assets at June 30, 2011, was \$387,452 . These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$261,553 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Total Net Assets remained relatively consistent in fiscal year 2011 as compared to fiscal year 2010.

Table 2 shows the changes in net assets for fiscal years 2011 and 2010.

Table 2
Changes in Net Assets

	Governmental Activities	
	2011	2010
Revenues:		
Program Revenues		
Charges for Services	\$2,330,074	\$2,530,248
Operating Grants, Contributions	483,508	374,668
General Revenues:		
Grants and Entitlements	731,021	726,222
Other	104,338	207,487
Total Revenues	<u>3,648,941</u>	<u>3,838,625</u>
Program Expenses:		
Instruction	1,011,110	1,076,026
Support Services:		
Pupil and Instructional Staff	1,561,082	1,690,649
School Administrative, General Administration, and Fiscal	781,916	876,747
Operations and Maintenance	63,518	51,349
Central	239,019	306,641
Total Program Expenses	<u>3,656,645</u>	<u>4,001,412</u>
Change in Net Assets	(7,704)	(162,787)
Net Assets Beginning of Year	<u>2,800,556</u>	<u>2,963,343</u>
Net Assets End of Year	<u><u>\$2,792,852</u></u>	<u><u>\$2,800,556</u></u>

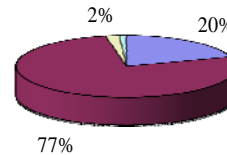
**Southern Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

The Center revenues are mainly from three sources. Charges for services, operating grants and contributions and grants and entitlements comprised 97% of the Center's revenues for governmental activities.

Instruction comprises 27.7% of governmental program expenses. Support services expenses were 72.3% of governmental program expenses.

Charges for services and Operating Grants made up 77% of revenues for governmental activities for the Center in 2011. The Center's reliance upon charges for services and operating grants is demonstrated by the following graph:

Revenue Sources	2011	Percent of Total
General Grants	\$731,021	20%
Program Revenues	2,813,582	77%
Investment Earnings	72,006	2%
Other Revenues	32,332	1%
	<u>\$3,648,941</u>	<u>100%</u>



Revenues in total decreased in 2011 as compared to 2010 due to a decrease in charges for services received throughout the fiscal year. Total instruction expenses decreased in 2011 as compared to 2010 due to the Center's ongoing effort to cut costs.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction	\$1,011,110	\$1,076,026	(\$25,388)	\$132,688
Support Services:				
Pupil and Instructional Staff	1,561,082	1,690,649	(131,841)	(446,845)
School Administrative, General Administration, and Fiscal Operations and Maintenance	781,916	876,747	(442,328)	(495,782)
Central	63,518	51,349	(63,518)	(51,349)
	<u>239,019</u>	<u>306,641</u>	<u>(179,988)</u>	<u>(235,208)</u>
Total Expenses	<u>\$3,656,645</u>	<u>\$4,001,412</u>	<u>(\$843,063)</u>	<u>(\$1,096,496)</u>

**Southern Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

The Center's Funds

The Center has two major governmental funds: the General Fund and the Improving Teacher Quality Fund. Assets of these funds comprise \$2,675,306 (92%) of the total \$2,909,541 governmental funds assets.

General Fund: Fund balance at June 30, 2011 was \$2,428,143 including \$2,269,726 of unassigned balance. The primary reason for the decrease in fund balance was a result of a decrease in the Center's charges for educational services.

Improving Teacher Quality Fund: Fund balance at June 30, 2011 was \$318. This fund was set up mainly for the Principal Evaluation Grant that will be received in the following fiscal year.

General Fund Budgeting Highlights

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

During the course of fiscal 2011, the Center amended its general fund budget. The Center uses program-based budgeting and the budgeting systems are designed to tightly control total program budgets but provide flexibility for program management. During the course of the year, the Center revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, original budgeted revenues were \$3,555,444 and final budgeted revenues were \$3,415,063. Original budgeted expenditures were \$4,251,285 and final budgeted expenditures were \$4,322,651. Actual ending fund balance of \$2,378,171.

Capital Assets and Debt Administration

Capital Assets

At the fiscal year end 2011, the Center had \$387,452 invested in land, buildings and improvements and equipment. Table 4 shows fiscal 2011 balances as compared to 2010:

**Southern Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)**

Table 4
Capital Assets at June 30
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land	\$31,490	\$31,490
Buildings and Improvements	339,816	352,767
Equipment	<u>16,146</u>	<u>22,005</u>
Total Net Capital Assets	<u><u>\$387,452</u></u>	<u><u>\$406,262</u></u>

Capital assets decreased in fiscal year 2011 due to the recognition of depreciation, additions and deletions.

See note 5 to the basic financial statements for further details on the Center's capital assets.

Debt

At June 30, 2011, the Center had no outstanding debt obligations.

For the Future

The Center relies heavily on charges for services and intergovernmental revenues. This scenario requires management to plan carefully and prudently to provide the resources to meet needs over the next several years. Financially, the future of the Center is not without challenges. Management must diligently plan future expenditures. All of the Center's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality services to other organizations in the future.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the 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 the Treasurer's Office at Southern Ohio Educational Service Center, 3321 Airborne Road, Wilmington, Ohio 45177.

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Southern Ohio Educational Service Center
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$2,779,609
Receivables:	
Accounts	84,887
Interest	17,727
Intergovernmental	27,318
Nondepreciable Capital Assets	31,490
Depreciable Capital Assets, Net	<u>355,962</u>
Total Assets	<u>3,296,993</u>
Liabilities:	
Accounts Payable	8,885
Accrued Wages and Benefits	207,572
Long-Term Liabilities:	
Due Within One Year	31,657
Due In More Than One Year	<u>256,027</u>
Total Liabilities	<u>504,141</u>
Net Assets:	
Invested in Capital Assets	387,452
Restricted for:	
Other Grants	233,917
Other Purposes	27,636
Unrestricted	<u>2,143,847</u>
Total Net Assets	<u><u>\$2,792,852</u></u>

See accompanying notes to the basic financial statements.

Southern Ohio Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction:			
Regular	\$445,440	\$192,722	\$180,137
Special	565,670	493,886	118,977
Support Services:			
Pupil	359,729	352,710	126,345
Instructional Staff	1,201,353	900,166	50,020
General Administration	30,089	0	0
School Administration	518,421	234,051	0
Fiscal	233,406	102,783	2,754
Operations and Maintenance	63,518	0	0
Central	239,019	53,756	5,275
Total Governmental Activities	<u>\$3,656,645</u>	<u>\$2,330,074</u>	<u>\$483,508</u>

General Revenues:
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Other Revenues

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

<u>Net (Expense) Revenue</u> <u>and Changes in Net Assets</u> <u>Governmental</u> <u>Activities</u>
(\$72,581)
47,193
119,326
(251,167)
(30,089)
(284,370)
(127,869)
(63,518)
(179,988)
<u>(843,063)</u>
731,021
72,006
32,332
<u>835,359</u>
(7,704)
<u>2,800,556</u>
<u><u>\$2,792,852</u></u>

Southern Ohio Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2011

	General	Improving Teacher Quality	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$2,544,245	\$1,447	\$233,917	\$2,779,609
Receivables:				
Accounts	84,887	0	0	84,887
Interest	17,727	0	0	17,727
Intergovernmental	0	27,000	318	27,318
Total Assets	2,646,859	28,447	234,235	2,909,541
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	7,756	1,129	0	8,885
Accrued Wages and Benefits	207,572	0	0	207,572
Deferred Revenue	3,388	27,000	0	30,388
Total Liabilities	218,716	28,129	0	246,845
Fund Balances:				
Restricted	0	318	234,235	234,553
Assigned	158,417	0	0	158,417
Unassigned	2,269,726	0	0	2,269,726
Total Fund Balances	2,428,143	318	234,235	2,662,696
Total Liabilities and Fund Balances	\$2,646,859	\$28,447	\$234,235	\$2,909,541

See accompanying notes to the basic financial statements.

Southern Ohio Educational Service Center
Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities
June 30, 2011

Total Governmental Fund Balance \$2,662,696

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 387,452

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds.

Interest	3,388	
Intergovernmental	<u>27,000</u>	
		30,388

Some liabilities reported in the statement of net assets do not
require the use of current financial resources and therefore
are not reported as liabilities in governmental funds.

Compensated Absences	<u>(287,684)</u>
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Net Assets of Governmental Activities \$2,792,852

See accompanying notes to the basic financial statements.

Southern Ohio Educational Service Center
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	Improving Teacher Quality	Other Governmental Funds	Total Governmental Funds
Revenues:				
Charges for Educational Services	\$2,003,417	\$0	\$0	\$2,003,417
Charges for Non-Educational Services	192,434	0	0	192,434
Investment Earnings	74,828	0	0	74,828
Intergovernmental	1,153,304	15,000	151,310	1,319,614
Other Revenues	34,470	0	0	34,470
Total Revenues	3,458,453	15,000	151,310	3,624,763
Expenditures:				
Current:				
Instruction:				
Regular	409,628	0	44,458	454,086
Special	563,739	0	0	563,739
Support Services:				
Pupil	335,238	0	28,102	363,340
Instructional Staff	1,191,181	14,202	0	1,205,383
General Administration	30,089	0	0	30,089
School Administration	517,939	0	0	517,939
Fiscal	229,047	480	2,227	231,754
Operations and Maintenance	63,518	0	0	63,518
Central	233,277	0	5,275	238,552
Total Expenditures	3,573,656	14,682	80,062	3,668,400
Excess of Revenues Over (Under) Expenditures	(115,203)	318	71,248	(43,637)
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	105	0	0	105
Total Other Financing Sources (Uses)	105	0	0	105
Net Change in Fund Balance	(115,098)	318	71,248	(43,532)
Fund Balance Beginning of Year	2,543,241	0	162,987	2,706,228
Fund Balance End of Year	\$2,428,143	\$318	\$234,235	\$2,662,696

See accompanying notes to the basic financial statements.

Southern Ohio Educational Service Center
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balance - Total Governmental Funds (\$43,532)

Amounts reported for governmental activities in the
 statement of activities are different because:

Governmental funds report capital asset additions as expenditures.
 However, in the statement of activities, the cost of those assets is
 allocated over their estimated useful lives as depreciation
 expense. This is the amount of the difference between capital
 asset additions and depreciation in the current period.

Depreciation Expense (18,629)

Governmental funds only report the disposal of assets to the
 extent proceeds are received from the sale. In the statement
 of activities, a gain or loss is reported for each disposal. The
 amount of the proceeds must be removed and the gain or loss
 on the disposal of capital assets must be recognized. This is the
 amount of the difference between the proceeds and the gain or loss. (181)

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

Interest	(2,822)	
Intergovernmental	<u>27,000</u>	
		24,178

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

Compensated Absences 30,460

Change in Net Assets of Governmental Activities (\$7,704)

See accompanying notes to the basic financial statements.

Southern Ohio Educational Service Center
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets:		
Equity in Pooled Cash and Investments	\$0	\$1,389,860
Restricted Cash and Investments	949,035	
Receivables:		
Accounts	0	2,210
Interest	5,285	0
Intergovernmental	<u>0</u>	<u>108,065</u>
Total Assets	<u>954,320</u>	<u>1,500,135</u>
Liabilities:		
Accounts Payable	0	68,276
Other Liabilities	<u>1,409</u>	<u>1,431,859</u>
Total Liabilities	<u>1,409</u>	<u>\$1,500,135</u>
Net Assets:		
Nonexpendable	600,000	
Expendable	349,035	
Held in Trust	<u>3,876</u>	
Total Net Assets	<u>\$952,911</u>	

See accompanying notes to the basic financial statements.

Southern Ohio Educational Service Center
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2011

	Private Purpose Trust
Additions:	
Investment Earnings	\$23,025
Total Additions	23,025
Deductions:	
Scholarships	42,516
Total Deductions	42,516
Change in Net Assets	(19,491)
Net Assets Beginning of Year	972,402
Net Assets End of Year	\$952,911

See accompanying notes to the basic financial statements.

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Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 1 – Description of the Educational Service Center and Reporting Entity

The Southern Ohio Educational Service Center Governing Board (referred to as "Center") organized on July 1, 1997, and operates under current standards prescribed by the Ohio State Board of Education as provided in 3311.053 of the Ohio Revised Code for county educational service centers.

The Center was formerly known as the Clinton-Fayette-Highland Educational Service District after the merger of the Clinton County, Fayette County and the Highland County Educational Service Centers. Effective July 1, 2005, as approved by the governing board, the Center became known as the Southern Ohio Educational Service Center after the expansion of their service to include Adams County Ohio Valley School District. This was a name change only, and did not change the organizational structure or services provided by the Center. The Governing Board is made up of nine elected board members. The elected governing board can, at the January organizational meeting, appoint up to 8 additional members to serve on the governing board for a maximum of 17 members. The resolution to merge explains this issue in more detail.

This Center operates the following office facilities--the Central Board Office at 3321 Airborne Road, Wilmington, Ohio and the Highland County Office at 39 Wilhttesville, Hillsboro, Ohio.

The Center employs, including Region 14/Hopewell 32 non-certified, 67 certificated and 2 administrative employees to provide service to the eight local school districts in Clinton County (Blanchester, Clinton-Massie, East Clinton), Fayette County (Miami Trace), Highland County (Bright, Fairfield, Lynchburg-Clay), Adams County (Adams County/Ohio Valley): the three city school districts of Hillsboro, Washington Court House, and Wilmington, the one exempted village school district of Greenfield, and the Laurel Oaks Career Development Center.

The Center provides fiscal agent services to the following organizations: Region 14/Hopewell, 5350 West New Market Road, Hillsboro, Ohio; DARE, through the Clinton County Sheriff, and Wilmington, Ohio. Region 14/Hopewell is accounted for as an agency trust fund while the other funds with fiscal agent relationships are reported as agency funds for GAAP purposes. The Center also provides fiscal agent services to the Clinton County Alternative School. Participation fees and tuition for the alternative school are included within the General Fund. Grant activity for the alternative school is included within the Special Revenue Fund.

Reporting Entity

The Center reporting entity is comprised of the primary government. The primary government of the Center consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations, preschool, teacher development, gifted, work-study, special education, alternative school, media center cooperative, technology, speech therapy, psychology, social work, and multi-handicap activities and programs.

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The Center is associated with seven organizations, which are defined as jointly governed organizations, group purchasing pools, and related organizations. These organizations are presented in Notes 12, 13, and 14 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the Center's accounting policies are described below.

Measurement Focus

Government-wide Financial Statements

The Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Center are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and programs revenues for each function or program of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Center.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include

Southern Ohio Educational Service Center
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For the Fiscal Year Ended June 30, 2011

reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose fund and investment trust fund are reported using the economic resources measurement focus.

Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Center are grouped into the categories governmental and fiduciary. The focus of government fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds

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

General Fund - The general fund is used to account for all financial resources except those required to be accounted for 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.

Improving Teacher Quality Fund - The improving teacher quality fund is used to account for federal monies provided to support programs for improving teacher quality.

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. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center has two agency funds. The Center has a private purpose trust which benefits programs for individual students.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
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accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, included grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: grants and interest.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Equity in Pooled Cash and Investments

Cash received by the Center is pooled for investment purposes. Interest in the pool is presented as “equity in pooled cash and investments” on the financial statements.

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

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the fiscal year amounted to \$74,828.

Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of two thousand five hundred dollars (\$2,500). The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

All reported capital assets are depreciated, except land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Building and Improvements	20-50 years
Equipment	3 -10 years

Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other government or imposed by enabling legislation. Restricted assets include the amount in the private purpose trust fund that is restricted by trust agreements to be used for scholarships.

Compensated Absences

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Center's past experience of making termination payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount due to the employee at year end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated Absences are reported in governmental funds only if they have matured.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the Center's \$261,553 in restricted net assets, none were restricted by enabling legislation.

Fund Balance

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

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

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

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

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
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Assigned – resources that are intended to be used for specific purposes as approved through the District’s formal purchasing procedure by the Treasurer.

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

The District applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net assets are available. The District considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be uses.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

As a general rule the effect of internal activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 3 – Equity in Pooled Cash and Investments

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

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

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

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

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
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- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2011, \$1,664,964 of the Center's bank balance of \$5,259,802 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

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

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Investments

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

	<u>Fair Value</u>	<u>Aggregate Credit Risk</u>	<u>Weighted Average Maturity (Years)</u>
Federal Farm Credit Bank	109,291	49.0%	2.16
Money Market Funds	114,593	51.0%	0.00
Total Fair Value	<u>\$223,884</u>	<u>100.0%</u>	
Portfolio Weighted Average Maturity			1.05

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

Credit Risk – It is the Center’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. The Center’s investments in Federal Farm Credit Bank, and in the Money Market Funds were rated AAA by Standard & Poor’s and Fitch Ratings and Aaa by Moody’s Investors Service.

Concentration of Credit Risk – The Center’s investment policy allows investments in Federal Agencies or Instrumentalities. The Center has invested 49% of its investments in government sponsored enterprise (GSE) securities.

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

Note 4 – Receivables

Receivables at June 30, 2011, consisted of accounts, interest, and intergovernmental.

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$31,490	\$0	\$0	\$31,490
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	528,710	0	0	528,710
Equipment	<u>109,940</u>	<u>0</u>	<u>8,870</u>	<u>101,070</u>
Totals at Historical Cost	<u>670,140</u>	<u>0</u>	<u>8,870</u>	<u>661,270</u>
Less Accumulated Depreciation:				
Buildings and Improvements	175,943	12,951	0	188,894
Equipment	<u>87,935</u>	<u>5,678</u>	<u>8,689</u>	<u>84,924</u>
Total Accumulated Depreciation	<u>263,878</u>	<u>18,629</u>	<u>8,689</u>	<u>273,818</u>
Governmental Activities Capital Assets, Net	<u>\$406,262</u>	<u>(\$18,629)</u>	<u>\$181</u>	<u>\$387,452</u>

Depreciation expense was charged to governmental functions as follows:

Support Services:	
Instructional Staff	\$4,194
School Administration	14,312
Fiscal	<u>123</u>
Total Depreciation Expense	<u>\$18,629</u>

Note 6 – Long-Term Liabilities

	<u>Beginning Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Outstanding</u>	<u>Due In One Year</u>
Governmental Activities:					
Compensated Absences	<u>\$318,144</u>	<u>\$2,754</u>	<u>\$33,214</u>	<u>\$287,684</u>	<u>\$31,657</u>
Total Governmental Activities Long-Term Liabilities	<u>\$318,144</u>	<u>\$2,754</u>	<u>\$33,214</u>	<u>\$287,684</u>	<u>\$31,657</u>

Compensated absences will be paid from the fund from which the person is paid.

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 7 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's contributions to SERS for the years ended June 30, 2011, 2010, and 2009 were \$216,186, \$230,861, and \$229,782, respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009.

State Teachers Retirement System of Ohio

Plan Description

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

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits

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

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits

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

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

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

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

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

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy

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

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2011, were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS for the years ended June 30, 2011, 2010, and 2009 were \$529,162, \$552,453, and \$531,985, respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009.

Note 11- Post Employment Benefits

School Employees Retirement System of Ohio

Plan Description

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

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Medicare Part B Plan

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

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation was .76%. District contributions for the year ended June 30, 2011, 2010 and 2009 were \$11,736, \$12,532 and \$12,310, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2011, the health care allocation was 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District contributions assigned to health care for the years ended June 30, 2011, 2010, and 2009 were \$22,082, \$7,585, and \$68,278, respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009.

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

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

State Teachers Retirement System of Ohio

Plan Description

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

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

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

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

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2011, 2010 and 2009. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2011, 2010, and 2009 were \$37,797, \$39,461, and \$37,999, respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009.

Note 9 – Contingent Liabilities

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 is

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at year-end.

Litigation

The Center 's attorney estimates that all other potential claims against the Center not covered by insurance resulting from all other litigation would not materially affect the financial statements of the Center.

Note 10 – Risk Management

The Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The current facility at 3321 Airborne Road is leased from the Great Oaks Institute of Career Technology and Development. The Highland County Educational Service Center facility is leased from Hillsboro City School District. The Region 14/Hopewell facility is owned by the Cooperative Districts. The Center contracted with Governmental Underwriters of America, Inc. for general liability educator's legal liability, excess liability, automobile, and property coverage. The plan covers the entire Center, including Region 14/Hopewell, Highland County offices, Clinton County Alternative Center and all classrooms.

The National Bank and Trust Insurance Agency maintains a \$20,000 public official bond for the Treasurer through Western Surety Company.

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

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

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 11 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave components are set by the Governing Board and State laws. Eligible employees and administrators earn ten to twenty days of vacation per year, depending upon length of service. Accumulated vacation must be used by the end of the calendar year earned or be lost. Unused vacation time is paid to employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 230 days for all personnel. Upon retirement, payment is made for twenty-five percent of the employee's accumulated sick leave with a maximum payment being limited to 35 days, unless otherwise stated in employment contract.

Health Care Benefits

The Center provides term life insurance, accidental death and dismemberment insurance to all of its eligible employees through the Southwestern Ohio Educational Purchasing Cooperative (SWOEPC), using Sun Life Insurance Company.

The Center provides health care, dental, and vision insurance benefits through the Southwestern Ohio Educational Purchasing Cooperative (SWOEPC), using the United Health Care, Delta Dental and Vision Service Plan providers.

125 Plan

The Center provides its eligible employees an option to participate in a 125 plan. Through election to participate, the employees can have their portion of their medical premiums tax exempt. Participation is renewed annually with each fiscal year during the month of September. This plan is administered by the American Fidelity Assurance Company.

Deferred Compensation

The Center provides an IRS Section 457b Plan for deferred compensation. Employees may elect to contribute “before tax” dollars into an annuity type program. The Center does not make any employer contributions. The plan is administered by ING Life and Annuity Company.

403b Plan

The Center provides an IRS Section 403b Plan. Employees may elect to contribute “before tax” dollars into a tax sheltered type program. The Center does not make any employer contributions except to those employees who are eligible for post-retirement contributions according to Center’s 403b Plan Document. The plan is administered by a third party administrator, CPI Qualified Plan Consultants, Inc.

**Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Note 12 – Jointly-Governed Organization

Miami Valley Educational Computer Association (MVECA)

The Center is a member of the Miami Valley Educational Computer Association (MVECA) which is a technology support consortium for public schools. MVECA is a council of Governments (COG) and an association of public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The General Assembly of MVECA consists of two representatives, the superintendent and the treasurer, from each of the 24 participating school districts. The Board of Directors is elected from this group. The degree of control exercised by any participating district is limited to its representation on the Board. To obtain financial information; write to MVECA, 330 East Enon Road, Yellow Springs, Ohio 45387.

Region 14/Hopewell

Region 14/Hopewell is a jointly governed organization created by the Ohio Department of Education and the participating school districts to offer professional development, technical assistance, and support in areas of school improvement services, special education and early learning school readiness as well as special education and related services to children with special needs in the region. Eighteen local, city and exempted village school districts in Adams, Brown, Clinton, Fayette, and Highland counties receive services from Region 14/Hopewell. This organization is operated under regulations and policies established by the Ohio Department of Education, the Center's governing board, and its own advisory council. The Hopewell Advisory Council is made up of superintendents from the eighteen school districts plus the Center's superintendent and treasurer, developmental disabilities agencies, joint vocational school superintendents, parents of children with special needs in the region, and other members as specified in law. The Advisory Council provides recommendations to the Center regarding both the Ohio Department of Education / Region 14 Performance Agreement activities and the Hopewell Cooperative programs and services. The Center acts as fiscal agent for the Hopewell Center through a written agreement. Region 14/Hopewell receives funding from contracts with each of the member school districts, state unit funding, and state and federal grants.

Note 13 – Group Purchasing Pools

Southwestern Ohio Educational Purchasing Cooperative (SWOEPC)

The Southwestern Ohio Educational Purchasing Cooperative (SWOEPC) is a group purchasing pool consisting of public and private school districts. The purpose of a group purchasing pool is to purchase products or services at a reduced rate. The Center participates with the SWOEPC in the purchase of supplies, audio/visual materials, and the management of unemployment and workers compensation.

**Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011**

Southwestern Ohio Educational Purchasing Cooperative Employee Benefit Plan Trust

The Southwestern Ohio Educational Purchasing Cooperative Employee Benefit Plan Trust (the Plan) is a group purchasing pool consisting of public and private school districts who are members of the SWOEPC (described above). The purpose of a group purchasing pool is for members to pool funds or resources to purchase group insurance products to provide health benefits to participants at a lower rate than if the individual district acted independently. Each participating district pays a monthly premium to the Trust fund for insurance coverage which is provided by Anthem or United Healthcare. The Plan is governed by a Board of Trustees elected in accordance with the Trust Agreement and voted on by participating SWOEPC member districts.

Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan

The Center participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Program (WCGRP) was established through the Southwestern Ohio Educational Purchasing Cooperative (SWOEPC) as a group purchasing pool. The WCGRP's business and affairs are conducted by a Board of Directors. The Executive Director of the SWOEPC, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the WCGRP to cover the costs of administering the program.

Note 14 – Related Organization

Great Oaks Institute of Technology and Career Development (Great Oaks)

The Center appoints by law one board member to serve on the board of Great Oaks, located in Cincinnati, Ohio. This board member also represents the districts of Clinton-Massie Local and Blanchester Local, per their request. All other districts participating from the counties of Clinton, Fayette, and Highland send their own representatives.

Southern Hills Joint Vocational School

The Center appoints by law one board member to serve on the Southern Hills Joint Vocational School, located in Georgetown, Ohio, which serves Bright Local, one of the districts in the four-county educational service center region.

Note 15 – State Funding

The Center is funded by the Ohio Department of Education and by its member district through the State Settlement (J40404).

The state funded portion of the settlement is broken down into three sources of revenue: early childhood unit funding, gifted unit funding, and per pupil funding. The early childhood and gifted funding is based on the number of available unites and by the information provided through the Center's Educational Information Management Systems (EMIS). The per pupil

Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

funding is based on the Average Daily Membership (ADM) of all the Center's member districts multiplied by \$40.52 minus any reduction in funding by the State.

The local funded portion of the settlement is broken down into two sources of revenue: supervisory allowance and per pupil. Each source of local revenue is deducted directly from the member districts' state funding formula. The supervisory funding total is calculated by the information provided through the Center's EMIS. Each district pays supervisory cost based on its percentage of ADM. Per pupil funding is based on each district's ADM multiplied by \$6.50. Districts may have additional per pupil funding deducted if an agreement is on file with the Ohio Department of Education. The additional per pupil deduction is used to provide funding for specific programs or services. The Ohio Department of Education supervises the procedure under which the school districts approve or disapprove the additional funding per pupil.

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Southern Ohio Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 16 – Fund Balances

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

Fund Balances	General	Improving Teacher Quality	Other Governmental Funds	Total
Restricted for:				
Other Grants	\$0	\$0	\$233,917	\$233,917
Improving Teacher Quality	0	318	0	318
Parent Mentor	0	0	318	318
Total Restricted	0	318	234,235	234,553
Assigned to:				
Encumbrances	158,417	0	0	158,417
Total Assigned	158,417	0	0	158,417
Unassigned (Deficit)	2,269,726	0	0	2,269,726
Total Fund Balance	\$2,428,143	\$318	\$234,235	\$2,662,696

Note 17 – Change in Accounting Principles

For fiscal year 2011, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” GASB 54 does not affect the calculation of the District’s fund balance but it shifts the focus of fund balance reporting from the availability of fund resources for budgeting to the extent to which the District is bound to honor constraints on the specific purposes for which amounts in funds can be spent.

SUPPLEMENTARY INFORMATION

Southern Ohio Educational Service Center
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2011

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Charges for Educational Services	\$2,028,359	\$1,948,272	\$1,948,272	\$0
Charges for Non-Educational Services	198,799	190,950	190,950	0
Investment Earnings	90,807	87,222	87,222	0
Intergovernmental	1,200,712	1,153,304	1,153,304	0
Other Revenues	36,767	35,315	35,315	0
Total Revenues	3,555,444	3,415,063	3,415,063	0
Expenditures:				
Current:				
Instruction:				
Regular	548,175	557,377	486,488	70,889
Special	640,009	650,753	567,988	82,765
Support Services:				
Pupil	376,242	382,558	333,903	48,655
Instructional Staff	1,392,444	1,415,819	1,235,750	180,069
General Administration	43,650	44,383	38,738	5,645
School Administration	598,242	608,285	530,921	77,364
Fiscal	261,144	265,528	231,757	33,771
Operations and Maintenance	104,689	106,446	92,908	13,538
Central	286,690	291,502	254,428	37,074
Total Expenditures	4,251,285	4,322,651	3,772,881	549,770
Excess of Revenues Over (Under) Expenditures	(695,841)	(907,588)	(357,818)	549,770
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	109	0	105	105
Total Other Financing Sources (Uses)	109	0	105	105
Net Change in Fund Balance	(695,732)	(907,588)	(357,713)	549,875
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	2,735,884	2,735,884	2,735,884	0
Fund Balance End of Year	\$2,040,152	\$1,828,296	\$2,378,171	\$549,875

See accompanying notes to the supplementary information.

Southern Ohio Educational Service Center
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2011

	Improving Teacher Quality Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	\$15,000	\$15,000	\$15,000	\$0
Total Revenues	15,000	15,000	15,000	0
Expenditures:				
Current:				
Support Services:				
Instructional Staff	13,073	13,073	13,073	0
Fiscal	480	480	480	0
Total Expenditures	13,553	13,553	13,553	0
Net Change in Fund Balance	1,447	1,447	1,447	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	0	0	0	0
Fund Balance End of Year	<u>\$1,447</u>	<u>\$1,447</u>	<u>\$1,447</u>	<u>\$0</u>

See accompanying notes to the supplementary information.

Southern Ohio Educational Service Center
Notes to the Supplementary Information
For The Year Ended June 30, 2011

Note 1 – Budgetary Process

Annual appropriations are enacted by the Educational Service Center at the fund, function and object level of expenditures. Budgetary integration is employed as a management control device during the year for all funds. During the year, monthly supplemental appropriations were enacted. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations.

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

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

While the Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and other grants fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

Southern Ohio Educational Service Center
Notes to the Supplementary Information
For The Year Ended June 30, 2011

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund and the Improving Teacher Quality Fund.

Net Change in Fund Balance

	<u>General Fund</u>	<u>Improving Teacher Quality</u>
GAAP Basis	(\$115,098)	\$318
Revenue Accruals	(43,390)	0
Expenditure Accruals	(33,145)	1,129
Encumbrances	(166,080)	0
Budget Basis	<u>(\$357,713)</u>	<u>\$1,447</u>

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SOUTHERN OHIO EDUCATIONAL SERVICE CENTER
CLINTON COUNTY

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

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Disbursements
<i>Educational Service Center (ESC)</i>			
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed through Ohio Department of Education:</i>			
Special Education Cluster:			
Special Education - Grants to State:			
IDEA Part B - Parent Mentor, FY11	84.027	\$ 23,138	\$ 23,137
IDEA Part B - Parent Mentor, FY10		427	-
Total Special Education Grants to State (IDEA, Part B)		<u>23,565</u>	<u>23,137</u>
<u>U.S. DEPARTMENT OF HUMAN SERVICES</u>			
<i>Passed through Ohio Department of Developmental Disabilities:</i>			
Medical Assistance Program/CAFS - ESC	93.778	<u>76,269</u>	<u>-</u>
Total Department of Human Services		<u>76,269</u>	<u>-</u>
Total Federal Financial Assistance for the ESC:		<u>99,834</u>	<u>23,137</u>
<i>Region 14 State Support Team (Hopewell)</i>			
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed through Ohio Department of Education:</i>			
Special Education Cluster:			
Special Education - Grants to State:			
IDEA Part B - FY11	84.027	853,197	852,985
IDEA Part B - FY10		33,251	35,799
IDEA Part B, Early Learning - FY11		15,803	15,803
IDEA Part B, Early Learning - FY10		718	723
		<u>902,969</u>	<u>905,310</u>
Special Education - IDEA			
Pre-School Grants for the Handicapped:			
Early Learning - FY11	84.173	25,994	25,570
Early Learning - FY10		28,275	28,275
Study Group Grant		-	3,943
		<u>54,269</u>	<u>57,788</u>
<i>Total Special Education Cluster</i>		<u>957,238</u>	<u>963,098</u>
State Personnel Development Grant:			
State Personnel Development Grant - FY11	84.323	36,543	35,475
State Personnel Development Grant - FY10		13,385	13,385
<i>Total State Personnel Development Grant</i>		<u>49,928</u>	<u>48,860</u>
School Improvement Grant:			
State Trainer Grant - FY11	84.367	12,000	12,000
Ohio Principal's Evaluation Grant		3,000	1,553
<i>Total School Improvement Grant</i>		<u>15,000</u>	<u>13,553</u>
Additional Program:			
Title 1, State System of Support - FY10	84.010	<u>941</u>	<u>2,131</u>
Total Department of Education		<u>1,023,107</u>	<u>1,027,642</u>
<u>U.S. DEPARTMENT OF HUMAN SERVICES</u>			
<i>Passed through Ohio Department of Developmental Disabilities:</i>			
Medical Assistance Program/CAFS - Hopewell	93.778	<u>28,386</u>	<u>-</u>
Total Department of Human Services		<u>28,386</u>	<u>-</u>
Total Federal Financial Assistance Hopewell:		<u>1,051,493</u>	<u>1,027,642</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 1,151,327</u>	<u>\$ 1,050,779</u>

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

**SOUTHERN OHIO EDUCATIONAL SERVICE CENTER
CLINTON COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Southern Ohio 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*

Southern Ohio Educational Service Center
Clinton County
3321 Airborne Rd.
Wilmington, Ohio 45177

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Southern Ohio Educational Service Center, Clinton County, Ohio (the Center), as of and for the year ended June 30, 2011, which collectively comprise the Center's basic financial statements and have issued our report thereon dated December 21, 2011. 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*.

Southern Ohio Educational Service Center
Clinton County
Independent Accountants' Report on Internal Control
Over Financial Reporting And On Compliance and Other
Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, the audit committee, 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 style with a large, looping initial "D".

Dave Yost
Auditor of State

December 21, 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

Southern Ohio Educational Service Center
Clinton County
3321 Airborne Rd.
Wilmington, Ohio 45177

To the Board of Education:

Compliance

We have audited the compliance of Southern Ohio Educational Service Center, Clinton County, Ohio (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 affects Southern Ohio Educational Service Center's major federal program for the 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 each 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 Southern Ohio 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.

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

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

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

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

Dave Yost
Auditor of State

December 21, 2011

**SOUTHERN OHIO EDUCATIONAL SERVICE CENTER
CLINTON COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

SOUTHERN OHIO EDUCATIONAL SERVICE CENTER

CLINTON 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
JANUARY 17, 2012**