

Educational Service Center of Lorain County  
Lorain County, Ohio

Single Audit

July 1, 2008 through June 30, 2009  
Fiscal Years Audited Under GAGAS: 2009



**Balestra, Harr & Scherer, CPAs, Inc.**

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# Mary Taylor, CPA

Auditor of State

Member of the Board  
Educational Service Center of Lorain County  
1885 Lake Avenue  
Elyria, Ohio 44035

We have reviewed the *Independent Auditor's Report* of the Educational Service Center of Lorain County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

March 29, 2010

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**Educational Service Center of Lorain County**  
Lorain County, Ohio  
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**Independent Auditor's Report**

Members of the Board  
Educational Service Center of Lorain County  
1885 Lake Avenue  
Elyria, OH 44035

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lorain County (the Center), Lorain County, as of and for the year ended June 30, 2009, 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 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2009, 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 January 7, 2010 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Educational Service Center of Lorain County  
Independent Auditor's Report  
Page 2

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The supplementary information on pages 37 and 38 provides additional information and is not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures on page 41 required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the supplementary information and the schedule of federal awards receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 18 to the basic financial statements, the Center implemented Governmental Accounting Standards Board (GASB) Statement No. 52, "*Land and Other Real Estate Held as Investments by Endowments*" and GASB Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*".

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
January 7, 2010



## EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

### Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2009 Unaudited

The discussion and analysis of the Educational Service Center of Lorain County's (the Educational Service Center) financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

#### **Financial Highlights**

Key Financial Highlights for 2009 are as follows:

- In total, net assets increased by \$ 46,346.
- Revenues for governmental activities totaled \$10,490,115 in 2009. Of this total, 25.5 percent consisted of general revenues while program revenues accounted for the balance of 74.5 percent.
- Program expenses totaled \$10,443,769. Instructional expenses made up 19.9 percent of this total while support services accounted for 79.9 percent. Other expenses rounded out the remaining 0.2 percent.

#### **Using this Annual Financial Report**

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

The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the whole Educational Service Center, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of the Educational Service Center of Lorain County, the general fund by far is the most significant fund.

## EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

### Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2009 Unaudited

#### **Reporting the Service Center as a Whole**

##### *Statement of Net Assets and the Statement of Activities*

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2009?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual 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 Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

Effective with this fiscal year, the *Statement of Net Assets* and the *Statement of Activities* are represented by one type of activity; Governmental Activities. The Educational Service Center's programs and services are reported here including instruction, support services, operation and maintenance of plant, and operation of non-instructional services.

#### **Reporting the Educational Service Center's Most Significant Funds**

##### *Fund Financial Statements*

The analysis of the Educational Service Center's major funds begins on page 11. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the general fund, the miscellaneous state grants fund and the miscellaneous federal grants fund.

##### *Governmental Funds*

Most of the Educational Service Center's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are 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 Educational Service 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.

# EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2009 Unaudited

### The Educational Service Center as a Whole

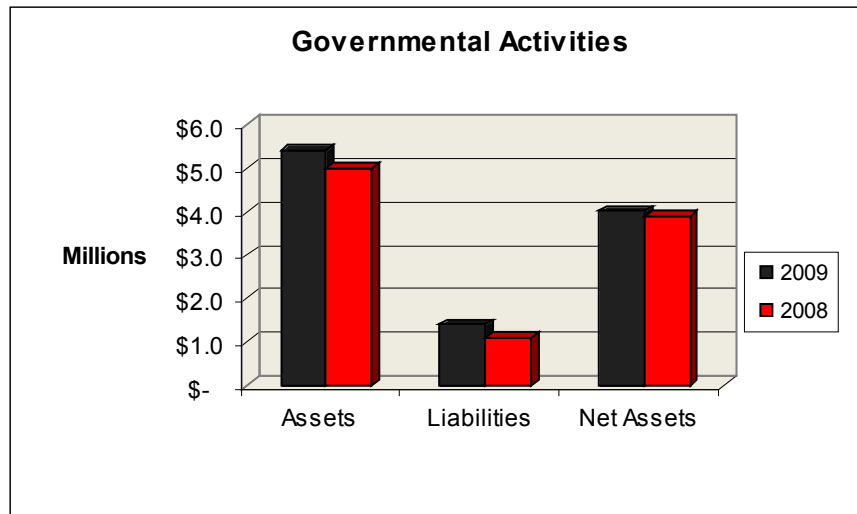
You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2009 compared to 2008:

**Table 1**  
**Net Assets**

	2009	2008
<b>Assets</b>		
Current and other assets	\$ 4,117,110	\$ 4,557,902
Capital assets, net	1,226,761	485,760
<b>Total assets</b>	<b>5,343,871</b>	<b>5,043,662</b>
<b>Liabilities</b>		
Current liabilities and other liabilities	878,056	730,699
Long term liabilities		
Due within one year	204,473	172,989
Due in more than one year	315,578	240,556
<b>Total liabilities</b>	<b>1,398,107</b>	<b>1,144,244</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	1,225,087	480,216
Restricted	80,363	219,810
Unrestricted	2,640,314	3,199,392
<b>Total net assets</b>	<b>\$ 3,945,764</b>	<b>\$ 3,899,418</b>

Total assets increased by \$ 300,209, with the most significant increase in capital assets of \$ 741,001 and offset by a decrease in equity in pooled cash and cash equivalents of \$ 559,943. Liabilities increased by \$ 253,863, comprised of accounts payable, accrued salaries and benefits and compensated absences.

By comparing assets and liabilities, one can see that in the Educational Service Center's net assets is \$ 3,945,764 and the entity is financially stable.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009  
Unaudited

Table 2 compares the changes in net assets from fiscal year 2009 to fiscal year 2008. A comparative analysis of government-wide data follows.

**Table 2**  
**Change in Net Assets**

	2009	2008
Revenues		
Program revenue		
Charges for services and sales	\$ 5,329,041	\$ 4,600,362
Operating grants, interest and contributions	2,494,686	1,382,265
Total program revenue	7,823,727	5,982,627
General revenue		
Grants and entitlements not restricted for specific purposes	2,361,780	2,474,078
Investment earnings	153,351	227,329
Miscellaneous	151,257	85,613
Total general revenues	2,666,388	2,787,020
Total revenues	10,490,115	8,769,647
Program expenses		
Instruction		
Regular	845,957	939,881
Special	1,237,164	1,265,065
Supporting services		
Pupil	1,318,733	1,000,409
Instructional staff	5,038,723	4,419,002
Board of education	52,344	54,251
Administration	786,646	640,577
Fiscal services	389,933	336,099
Business	421,657	489,863
Operation and maintenance	332,737	139,569
Central services	4,993	55,902
Operation of non-instructional services	311	25,624
Extracurricular activities	14,371	13,990
Interest	200	399
	10,443,769	9,380,631
Change in net assets	\$ 46,346	\$ (610,984)

# EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2009 Unaudited

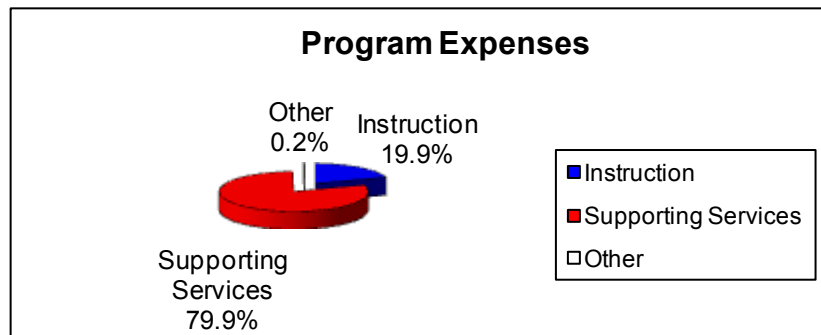
### Governmental Activities

A possible decrease in state funding in the next biennium would require a re-evaluation of our fees and services structure in order to maintain financial stability. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The (\$ 2,620,042) Net Cost of Services 2009, tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

Table 3  
Net Cost of Services

	Total Cost of Services 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
Governmental activities				
Instruction				
Regular	\$ 845,957	\$ (145,281)	\$ 939,881	\$ (289,082)
Special	1,237,164	(178,632)	1,265,065	(242,898)
Supporting services				
Pupil	1,318,733	(190,961)	1,000,409	(289,813)
Instructional staff	5,038,723	(279,540)	4,419,002	(948,716)
Board of education	52,344	(52,344)	54,251	(54,251)
Administration	786,646	(634,921)	640,577	(587,824)
Fiscal services	389,933	(384,381)	336,099	(323,531)
Business	421,657	(421,657)	489,863	(489,863)
Operation and maintenance	332,737	(332,737)	139,569	(138,569)
Central services	4,993	(4,993)	55,902	(27,839)
Operation of non-instructional services	311	5,976	25,624	(1,229)
Extracurricular activities	14,371	(371)	13,990	(3,990)
Interest	200	(200)	399	(399)
Totals	<u>\$ 10,443,769</u>	<u>\$ (2,620,042)</u>	<u>\$ 9,380,631</u>	<u>\$ (3,398,004)</u>



## EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

### Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2009 Unaudited

#### The Educational Service Center's Funds

Information regarding the Educational Service Center's major funds can be found starting on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$ 10,829,914 and expenditures and other financing uses totaled \$ 11,341,871. The most significant fund, the General Fund had a fund balance decreased of \$ 430,976. This was primarily due to the cash purchase of an unused building from the Keystone Local School District.

#### Capital Assets and Debt Administration

##### *Capital Assets*

At the end of fiscal year 2009, the Educational Service Center had \$1,226,761 invested in land, building and improvements, vehicles and furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal year 2009 values compared to 2008.

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

	2009	2008
Land	\$ 227,600	\$ 50,000
Building and improvements	787,956	264,493
Furniture and equipment	198,511	119,709
Vehicles	12,694	51,558
Total capital assets	<u>\$ 1,226,761</u>	<u>\$ 485,760</u>

All capital assets are reported at historical cost. For more information on capital assets refer to Note 8 of the basic financial statements.

#### Current Financial Related Activities

The Educational Service Center of Lorain County is financially sound. The Board and administration closely monitors its revenue and expenditures in accordance with board policy. The Educational Service Center is committed to serving its local school districts and will continue to do so. While many outside factors can affect the economy, the Educational Service Center is committed to providing the best services possible and to be fiscally responsible now and in the future.

#### Contacting the Educational Service Center District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service center's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Ms. Jill Orseno, Treasurer, at the Educational Service Center of Lorain County, 1885 Lake Ave., Lorain, Ohio 44035 or calling 440-324-5777 ext. 1125.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental Activities
Assets	
Equity in pooled cash and investments	\$ 2,787,302
Accounts receivable	8,000
Due from other governments	1,311,054
Accrued interest receivable	10,754
Capital assets	
Nondepreciable capital assets	227,600
Depreciable capital assets, net	999,161
Total assets	<u>5,343,871</u>
Liabilities	
Accounts and contracts payable	73,576
Accrued salaries, wages and benefits	624,161
Due to other governments	180,319
Long term liabilities	
Due within one year	204,473
Due in more than one year	315,578
Total liabilities	<u>1,398,107</u>
Net assets	
Invested in capital assets, net of related debt	1,225,087
Restricted for other purposes	80,363
Unrestricted	2,640,314
Total net assets	<u>\$ 3,945,764</u>

See the accompanying notes to the Basic Financial Statements.

## EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

		Program Revenues		Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants Interest and Contributions	Revenue and Changes in Net Assets
Governmental activities				
Instruction				
Regular	\$ 845,957	\$ 624,555	\$ 76,121	\$ (145,281)
Special	1,237,164	846,672	211,860	(178,632)
Supporting services				
Pupil	1,318,733	1,104,772	23,000	(190,961)
Instructional staff	5,038,723	2,746,755	2,012,428	(279,540)
Board of education	52,344	-	-	(52,344)
Administration	786,646	-	151,725	(634,921)
Fiscal services	389,933	-	5,552	(384,381)
Business	421,657	-	-	(421,657)
Operation and maintenance	332,737	-	-	(332,737)
Central services	4,993	-	-	(4,993)
Operation of non-instructional services	311	6,287	-	5,976
Extracurricular activities				
Academic	14,371	-	14,000	(371)
Interest	200	-	-	(200)
Totals	<u>\$ 10,443,769</u>	<u>\$ 5,329,041</u>	<u>\$ 2,494,686</u>	<u>(2,620,042)</u>
General revenues				
Grants and entitlements not restricted to specific purposes				2,361,780
Investment earnings				153,351
Miscellaneous				151,257
Total general revenues				<u>2,666,388</u>
Change in net assets				46,346
Net assets at beginning of year				<u>3,899,418</u>
Net assets at end of year				<u>\$ 3,945,764</u>

See the accompanying notes to the Basic Financial Statements.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2009

	General Fund	IDEA Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in pooled cash and investments	\$ 2,644,355	\$ 46,608	\$ 96,339	\$ 2,787,302
Receivables				
Accounts and other	8,000	-	-	8,000
Accrued interest receivable	10,754	-	-	10,754
Due from other governments	1,090,901	195,074	25,079	1,311,054
Interfund receivable	165,050	-	-	165,050
<b>Total assets</b>	<b>\$ 3,919,060</b>	<b>\$ 241,682</b>	<b>\$ 121,418</b>	<b>\$ 4,282,160</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts and contracts payable	\$ 58,143	\$ 10,778	\$ 4,655	\$ 73,576
Accrued wages and benefits	585,926	22,684	15,551	624,161
Due to other governments	146,791	30,145	3,383	180,319
Interfund payable	-	134,700	30,350	165,050
Deferred revenue	79,510	-	-	79,510
Compensated absences payable	37,356	-	-	37,356
<b>Total liabilities</b>	<b>907,726</b>	<b>198,307</b>	<b>53,939</b>	<b>1,159,972</b>
<b>Fund balances</b>				
Reserved for encumbrances	338,795	35,517	7,031	381,343
Unreserved, reported in				
General Fund	2,672,539	-	-	2,672,539
Special Revenue Funds	-	7,858	60,448	68,306
<b>Total fund balances</b>	<b>3,011,334</b>	<b>43,375</b>	<b>67,479</b>	<b>3,122,188</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,919,060</b>	<b>\$ 241,682</b>	<b>\$ 121,418</b>	<b>\$ 4,282,160</b>

See the accompanying notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2009

Total governmental funds balances	\$ 3,122,188
Amount 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 not reported in the funds.	1,226,761
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to intergovernmental revenue.	79,510
Long term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(481,021)
Capital lease payable	<u>(1,674)</u>
Net assets of governmental activities	<u><u>\$ 3,945,764</u></u>

See the accompanying notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	IDEA Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Tuition and fees	\$ 3,516,650	\$ -	\$ 1,425	\$ 3,518,075
Interest	153,351	-	-	153,351
Intergovernmental	2,537,326	970,731	1,427,012	4,935,069
Charges for services	1,832,549	-	7,787	1,840,336
Other	89,999	-	92,157	182,156
Total revenues	<u>8,129,875</u>	<u>970,731</u>	<u>1,528,381</u>	<u>10,628,987</u>
<b>Expenditures</b>				
Current				
Instruction				
Regular	746,223	-	86,660	832,883
Special	1,010,388	-	216,248	1,226,636
Supporting services				
Pupil	1,298,396	-	25,961	1,324,357
Instructional staff	3,383,106	759,569	1,045,849	5,188,524
Board of education	52,344	-	-	52,344
Administration	570,532	167,787	34,072	772,391
Fiscal services	359,649	-	27,141	386,790
Business	420,863	-	-	420,863
Operation and maintenance	319,563	-	248	319,811
Central services	3,044	-	1,949	4,993
Operation of non-instructional				
Community services	-	-	311	311
Extracurricular activities	-	-	14,371	14,371
Capital outlay	592,600	-	-	592,600
Debt service				
Principal	3,870	-	-	3,870
Interest	200	-	-	200
Total expenditures	<u>8,760,778</u>	<u>927,356</u>	<u>1,452,810</u>	<u>11,140,944</u>
Excess (deficiency) of revenues over expenditures	<u>(630,903)</u>	<u>43,375</u>	<u>75,571</u>	<u>(511,957)</u>
Other financing sources (uses)				
Transfers-in	199,927	-	1,000	200,927
Transfers-out	-	-	(200,927)	(200,927)
Total other financing sources (uses)	<u>199,927</u>	<u>-</u>	<u>(199,927)</u>	<u>-</u>
Net change in fund balances	(430,976)	43,375	(124,356)	(511,957)
Fund balances, beginning of year	<u>3,442,310</u>	<u>-</u>	<u>191,835</u>	<u>3,634,145</u>
Fund balances, end of year	<u>\$ 3,011,334</u>	<u>\$ 43,375</u>	<u>\$ 67,479</u>	<u>\$ 3,122,188</u>

See the accompanying notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009

Net change in fund balance - total governmental funds \$ (511,957)

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

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their useful  
lives and reported as depreciation expense. This is the amount by which  
depreciation exceeded capital outlay in the current period.

Capital outlay	875,979	
Loss on disposal of assets	(32,398)	
Depreciation expense	<u>(102,580)</u>	
Total		741,001

Revenues in the statement of activities that do not provide current financial  
resources are not reported as revenues in the funds. (106,473)

The issuance of long-term debt (e.g. leases) provide current financial resources  
to governmental funds, while the repayment of the principal of long-term debt  
consumes the current financial resources of governmental funds. Neither  
transaction, however, has any effect on net assets. 3,870

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  
the governmental funds. (80,095)

Change in net assets of governmental activities \$ 46,346

See the accompanying notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS

JUNE 30, 2009

	<u>Agency Funds</u>
Assets	
Equity in pooled cash and investments	\$ 2,836,508
Cash and investments in segregated accounts	12,510,279
Interest receivable	90,742
Accounts receivable	146,413
Due from other governments	<u>72,239</u>
Total assets	<u><u>15,656,181</u></u>
Liabilities	
Accounts payable	139,437
Accrued wages and benefits	43,589
Due to other governments	9,441
Due to others	15,324,203
Noncurrent liabilities:	
Due within one year	55,178
Due in over one year	<u>84,333</u>
Total liabilities	<u><u>\$ 15,656,181</u></u>

See the accompanying notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009

**NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER**

On June 13, 1914, the Educational Service Center of Lorain County (the Educational Service Center) was formed. The Educational Service Center supplies supervisory, administrative, fiscal, and other needed services to school districts and other agencies in the greater Lorain County area.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's facility and staff who provide services to 29,733 students in local, city and exempted village school districts in Lorain County.

**REPORTING ENTITY**

For financial reporting purposes, the reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate for the Educational Service Center. For the Educational Service Center, this includes all the agencies and departments that provide the following services: general operations and related special education, supervisory, administrative and fiscal activities of the Educational Service Center.

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

The Educational Service Center is associated with certain organizations which are defined as a jointly governed organization. These organizations are presented in Note 8 to the basic financial statements. These organizations are the Lake Erie Educational Computer Association (LEECA), the Lake Erie Regional Council of Governments (LERC) and the Ohio Department of Education's School Support Team Region 2.

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

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. Explanation of the Educational Service Center's more significant policies follow.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION

The Educational Service 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.

Government-wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service 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 grants 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 Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements

During the year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental 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. Fiduciary funds are reported by fund type.

B. FUND ACCOUNTING

The Educational Service 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 Educational Service 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 Educational Service Center are grouped into the categories governmental and fiduciary.

Governmental Funds

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

General Fund - The general fund is the general operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

IDEA Fund – The IDEA fund is used to account for federal special education grants which are restricted for a particular purpose.

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

Fiduciary Fund Type

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 Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. MEASUREMENT FOCUS

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and 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. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service 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 fiscal year end: grants, investment earnings, tuition, customer services and charges for services, rentals and fees.

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.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. CASH AND INVESTMENTS

To improve cash management, all cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2009, investments were limited to certificates of deposit, STAR Ohio (the State Treasurer's Investment Pool), treasury notes, and federal agency securities. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center has invested funds in the STAR Ohio during fiscal year 2009. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2009.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2009, the general fund and LEECA received \$ 153,351 and \$ 72,613 in interest income, respectively.

The Educational Service Center is fiscal agent for LERC. The Educational Service Center has segregated LERC's funds into separate bank accounts for individual investment accounts held separate from the Educational Service Center's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the Educational Service Center's treasury.

F. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2009, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. At June 30, 2009, the Educational Service Center did not have any prepaids.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. CAPITAL ASSETS

The Educational Service Center's only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District's capitalization threshold is \$2,400. The Educational Service 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 capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Asset</u>	<u>Estimated Useful Life</u>
Land improvements	5 years
Buildings and Building Improvements	5 - 30 years
Furniture and equipment	5 - 10 years

H. INTERFUND BALANCES

On the 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 of the statement of net assets.

I. 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 Educational Service Center will compensate the employees for the benefits through paid time off or some other means

Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Compensated Absences Payable" in the funds from which the employees will be paid.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

K. INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditure/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. 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 Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The government-wide statement of net assets reports \$ 22,372 is restricted by enabling legislation.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available

M. FUND BALANCE RESERVES

The Educational Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

N. 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.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2009.

NOTE 3 - DEFICIT FUND BALANCE

At June 30, 2009, the following non-major funds had deficit fund balances; the Public Preschool Fund of \$ 10,817, the Miscellaneous State Grants Fund of \$ 2,932, and the Special Needs Preschool of \$1,903. The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

State statutes classify monies held by the Educational Service Center into three categories:

Category 1 consists of "active" moneys, those moneys are required to be kept in a cash" or "near-cash" status for immediate use by the Educational Service Center. Such moneys must be maintained either as cash in the Educational Service Center treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Category 2 consists of "inactive" moneys, those moneys not required for use within the current five year period of designation of depositories. Inactive moneys must be deposited or invested as certificates of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Category 3 consists of "interim" moneys, those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts (including passbook accounts).

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

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily; and that the term of the agreement does not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio; (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 Educational Service 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 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.

B. DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the Educational Service Center's deposits may not be returned. The Educational Service Center does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$5,284,684 and the bank balance was \$ 5,834,374. Of the bank balance, \$ 5,556,261 was covered by federal depository insurance and \$ 278,113 was collateralized with securities held by the pledging institution's trust department not in the Educational Service Center's name.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

C. INVESTMENTS

As of June 30, 2009, the Educational Service Center had the following investments and maturities:

Investment Type	Fair Value	1 Year or less	2 Years	3 Years	4 Years	5 Years
StarOhio	\$ 570,642	\$ 570,642	\$ -	\$ -	\$ -	\$ -
Money Markets	546,659	546,659	-	-	-	-
US Treasury	374,418	374,418	-	-	-	-
FHLB	2,055,969	100,314	225,211	-	-	1,730,444
FHLMC	4,746,212	-	200,490	1,854,400	453,312	2,238,010
FNMA	1,277,749	-	-	-	502,815	774,934
FFCB	1,520,559	-	821,026	-	-	699,533
FHLB Discount Note	848,640	848,640	-	-	-	-
FHLMC Discount Note	474,292	474,292	-	-	-	-
FNMA Discount Note	434,265	434,265	-	-	-	-
	<u>\$ 12,849,405</u>	<u>\$ 3,349,230</u>	<u>\$ 1,246,727</u>	<u>\$ 1,854,400</u>	<u>\$ 956,127</u>	<u>\$ 5,442,921</u>

D. INTEREST RATE RISK

As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Educational Service Center's investment policy limits investment portfolio maturities to five years or less.

E. CREDIT RISK

The Educational Service Center's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio a rating of AAAM.

F. CONCENTRATION OF CREDIT RISK

The Educational Service Center's places no limit on the amount that may be invested to any one issuer. The following table includes the percentage of total of each investment type held by the Educational Service Center at June 30, 2009:

Investment Type	Fair Value	Percent of Total
StarOhio	\$ 570,642	4.44%
Money Markets	546,659	4.25%
US Treasury	374,418	2.91%
FHLB	2,055,969	16.00%
FHLMC	4,746,212	36.96%
FNMA	1,277,749	9.94%
FFCB	1,520,559	11.83%
FHLB Discount Note	848,640	6.60%
FHLMC Discount Note	474,292	3.69%
FNMA Discount Note	434,265	3.38%
	<u>\$ 12,849,405</u>	<u>100.00%</u>

# EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

### NOTE 5 - RECEIVABLES

Receivables at June 30, 2009, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds and all receivables will be collected within one year. A summary of the principal items of intergovernmental receivables follows:

Governmental activities:	Amount
Major funds	
General fund	\$ 1,090,901
IDEA	195,074
Non-major funds	
Preschool	7,350
Miscellaneous state grants	17,729
Total due from other governments	<u>\$ 1,311,054</u>

### NOTE 6 - STATE FUNDING

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$37.00 for each of the 29,733 students who are provided services. In addition to the \$37.00, the Educational Service Center receives \$6.50 per pupil from school districts served and a prorated supervisory cost to the Educational Service Center. These payments are received through the State's foundation program. The Educational Service Center also receives unit funding from the State Department of Education to partially fund its pre-school special education program and the gifted and talented program.

If additional funding is required, and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of \$43.50 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation program. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

### NOTE 7 - JOINTLY GOVERNED ORGANIZATIONS

#### A. LAKE ERIE EDUCATIONAL COMPUTER ASSOCIATION (LEECA)

LEECA is a jointly governed computer service organization among thirty-one members in the Ohio counties of Cuyahoga, Lorain, Erie, Huron, and Medina. These members are comprised of various public school districts and educational service centers in the counties previously mentioned. The jointly governed 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. LEECA is organized under Chapter 167 and 3313 of the Ohio Revised Code. The Educational Service Center serves as fiscal agent for LEECA and is one of the members mentioned above. LEECA is governed by an assembly which consists of a superintendent or designated representative from each participating member. LEECA has a Board of Directors chosen from the general membership of the LEECA Assembly which consists of a representative from the fiscal agent, chairmen of various committees, and at least one member from each participating county. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting and designating management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained by writing the Treasurer of the Educational Service Center of Lorain County, 1885 Lake Ave., Elyria, Ohio 44035.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

NOTE 7 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. LAKE ERIE REGIONAL COUNCIL (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of fourteen school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, and insurance. Each member provides operating resources to LERC on a per pupil or actual usage charge. LERC is governed by a board of directors which consists of a superintendent or designated representative from each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County at 1885 Lake Avenue, Elyria, Ohio.

C. STATE SUPPORT TEAM

House Bill 115 establishes the Educational Regional Service System and requires the creation of a coordinated, integrated and aligned system of state support and school district efforts to improve school effectiveness and student achievement. It is the intent of the general assembly that the educational regional service system would reduce the unnecessary duplication of programs and services and provide for a more streamlined and efficient delivery of educational services without reducing the availability of the services needed by the school districts and schools. The bill also contains information and deadlines for districts that want to transfer to another region.

The Educational Service Center serves as fiscal agent for the Region 2 State Support Team, one of sixteen Teams established by the Ohio Department of Education to provide support for the regional delivery of school improvement, literacy, special education compliance, and early learning and school readiness services to districts using the Tri-Tier Model, a differentiated technical assistance structure of support based upon need. The teams work through the office for Exceptional Children, Office of Early Learning and School Readiness and the Office of Field Relations by providing technical assistance and professional development. The Teams include staff and services formerly provided by the Special Education Regional Resource Centers and the Regional School Improvement Teams. Region 2 is comprised of Lorain, Huron, Erie and Ottawa counties.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

NOTE 8 - CAPITAL ASSETS

Capital asset activity during fiscal year 2009 is as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2009</u>
Nondepreciable capital assets				
Land	<u>\$ 50,000</u>	<u>\$ 177,600</u>	<u>\$ -</u>	<u>\$ 227,600</u>
Depreciable capital assets				
Buildings and improvements	546,958	573,649	-	1,120,607
Furniture, fixtures and equipment	453,445	124,730	(31,185)	546,990
Vehicles	56,274	-	(34,511)	21,763
Total capital assets being depreciated	<u>1,056,677</u>	<u>698,379</u>	<u>(65,696)</u>	<u>1,689,360</u>
Less accumulated depreciation				
Buildings and improvements	(282,465)	(50,186)	-	(332,651)
Furniture, fixtures and equipment	(333,736)	(45,929)	31,186	(348,479)
Vehicles	(4,716)	(6,465)	2,112	(9,069)
Total accumulated depreciation	<u>(620,917)</u>	<u>(102,580)</u>	<u>33,298</u>	<u>(690,199)</u>
Depreciable capital assets, net of accumulated depreciation	<u>435,760</u>	<u>595,799</u>	<u>(32,398)</u>	<u>999,161</u>
Governmental activities capital assets, net	<u>\$ 485,760</u>	<u>\$ 773,399</u>	<u>\$ (32,398)</u>	<u>\$ 1,226,761</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$ 6,790
Special	1,820
Supporting services	
Pupils	1,482
Instructional staff	11,550
Administration	7,213
Fiscal	1,059
Business	19,786
Operations and maintenance	52,880
Total depreciation expense	<u>\$ 102,580</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

NOTE 9 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the Educational Service Center contracted with Indiana Insurance Company for general liability insurance. Leased vehicles are covered by Indiana Insurance Company and have a \$50 deductible for comprehensive and a \$250 deductible for collision. The vehicle liability insurance is on an occurrence basis with a \$1,000,000 combined single limit. Claims have never exceeded this coverage in any of the past three years. There has been no significant reduction in coverage from the prior year. Professional liability is protected by the Indiana Insurance Company with a \$5,000,000 annual aggregate/\$5,000,000 single occurrence limit and a \$10,000 deductible.

For fiscal year 2008, the Educational Service Center participated in the Sheakley Workers' Compensation Group rating Program. The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. Sheakley Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$362,305, \$ 363,869, and \$ 339,245 respectively; 100 percent has been contributed for all three fiscal years.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

**B. STATE TEACHERS RETIREMENT SYSTEM**

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

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

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

Funding Policy - For the fiscal year ended June 30, 2009 and 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009 and 2008, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were \$637,999, \$ 571,946, and \$ 590,803 respectively; 100 percent has been contributed for all three fiscal years.

**C. SOCIAL SECURITY SYSTEM**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2009, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 11 - POST EMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM

Postemployment Benefits

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

Medicare Part B Plan

The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits 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 2009 was \$ 96.40, 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 2009, the actuarially required allocation is .75%. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$ 19,409, \$ 17,154, and \$ 16,442, respectively; 100 percent has been contributed for all three fiscal years.

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 HMOs, PPOs, 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. For the year ended June 30, 2009, the health care allocation is 4.16%. 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 2009, 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 School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$ 107,656, \$ 108,641, and \$ 80,277, respectively; 100 percent has been contributed for all three fiscal years.

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.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

NOTE 11 - POST EMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM (continued)

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](http://www.ohsers.org) under Employers/Audit Resources.

B. STATE TEACHERS RETIREMENT SYSTEM

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$49,077, \$ 43,996, and \$ 42,578, respectively; 100 percent has been contributed for all three fiscal years.

NOTE 12 - EMPLOYEE BENEFITS

A. COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to 30 days of vacation per year, depending upon length of service. Accumulated unused vacation (to a maximum of 40 days) is paid to employees upon termination of employment. Not all employees earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 240 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 120 days, and one-third of accumulated sick leave beyond 120 days, to a maximum accumulation of 210 days. Maximum payment may not exceed 60 days.

B. LIFE INSURANCE

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Life Insurance Trust in an amount equal to one half times the employee's salary rounded to the nearest \$500.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

NOTE 13 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during fiscal year 2009 are as follows:

	Balance June 30, 2008	Increase	Decrease	Balance June 30, 2009	Amounts Due In One Year
Capital lease	\$ 5,544	\$ -	\$ 3,870	\$ 1,674	\$ 1,674
Compensated absences	408,001	279,495	169,119	518,377	202,799
	<u>\$ 413,545</u>	<u>\$ 279,495</u>	<u>\$ 172,989</u>	<u>\$ 520,051</u>	<u>\$ 204,473</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital lease payments will be paid from the general fund.

NOTE 14 - CAPITAL LEASE

The Educational Service Center entered into a lease agreement for financing certain equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of June 30, 2009. The assets acquired through capital lease consist of:

	Cost	Accumulated Depreciation	Net
Digital Duplicator	<u>\$ 17,850</u>	<u>\$ 16,065</u>	<u>\$ 1,785</u>

The future minimum lease obligations and the present value of the minimum lease payments as of June 30, 2009, are as follow:

	Year ending June 30, 2010	Equipment
Total minimum lease payments		<u>\$ 1,695</u>
Less amount representing interest		21
Net present value of minimum lease payments		<u>\$ 1,674</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

NOTE 15 - OPERATING LEASE

The Educational Service Center is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreement is not reflected in the Educational Service Center's general long-term debt account group. During 2009, expenditures for the operating lease totaled \$ 2,012.

Year ending June 30,	Amount
2010	\$ 12,072
2011	12,072
2012	12,072
2013	12,072
2014	10,060
	<u>\$ 58,348</u>

NOTE 16 - CONTINGENCIES

A. GRANTS

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2009.

B. LITIGATION

The Educational Service Center is not a part of or involved in any legal proceedings at this time. The Educational Service Center management is of the opinion that ultimate disposition of any future claims and legal proceedings will not have a material effect, if any, on the financial condition of the Educational Service Center.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 17 - INTERFUND ACTIVITIES

Interfund balances at June 30, 2009, consist of the following individual fund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Fund:		
General Fund	\$ 165,050	\$ -
IDEA		134,700
Non-major Funds:		
Miscellaneous State Grants	-	23,000
ECSE Preschool	-	7,350
Total Non-major Funds	<u>-</u>	<u>30,350</u>
	<u>\$ 165,050</u>	<u>\$ 165,050</u>

Note 18 - CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2009, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments" and GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." GASB 52 establishes standards for accounting and financial reporting for land and other real estate held as investments by endowments which includes permanent and term endowments and permanent funds. The District does not currently have these types of funds. GASB 53 enhances the usefulness and comparability of derivative instrument information reported by state and local governments. Per Ohio Revised Code (ORC) the District is prohibited from investing in this type of instrument.

## **SUPPLEMENTARY INFORMATION**

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues and other financing sources	\$ 7,782,264	\$ 7,780,285	\$ 8,556,605	\$ 501,089
Expenditures and other financing uses	8,294,343	8,555,607	9,240,123	144,886
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(512,079)	(573,896)	(683,518)	(109,620)
Fund balances, beginning of year	2,684,669	2,684,669	2,684,669	-
Prior year encumbrances	245,219	245,219	245,219	-
Fund balances, end of year	<u>\$ 2,417,809</u>	<u>\$ 2,355,992</u>	<u>\$ 2,246,370</u>	<u>\$ (109,620)</u>

See the accompanying notes to the supplementary information.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET BASIS (NON-GAAP) AND ACTUAL – MAJOR SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2009

	IDEA Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues and other financing sources	\$ 977,489	\$ 977,489	\$ 935,657	\$ 41,832
Expenditures and other financing uses	977,489	935,344	935,344	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	-	42,145	313	41,832
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ 42,145</u>	<u>\$ 313</u>	<u>\$ 41,832</u>

See the accompanying notes to the supplementary information.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2009

NOTE 1 - BUDGETARY DATA

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

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

The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Educational Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances 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 Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis statements are the following:

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). Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2009

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

	Net Change in Fund Balance	
	General Fund	IDEA Fund
Budget basis	\$ (683,518)	\$ 313
Adjustments, increase (decrease)		
Revenue accruals	(226,803)	35,074
Expenditure accruals	479,345	7,988
GAAP basis, as reported	<u>\$ (430,976)</u>	<u>\$ 43,375</u>

Lorain County Educational Service Center  
Lorain County

Schedule of Federal Awards Receipts and Expenditures  
For the Year Ended June 30, 2009

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b>United States Department of Education</b>				
<i>Passed through Ohio Department of Education</i>				
Special Education Cluster:				
Special Education Grants to States	6BSF	84.027	\$ 814,465	\$ 1,013,116
Special Education - Preschool Grants	PGS1	84.173	59,075	69,139
Total Special Education Cluster			873,540	1,082,255
Title I Grants to Local Education Agencies	C1S1	84.010	100,474	100,474
Education for Homeless Children and Youth	HCS1	84.196	49,015	43,844
Special Education - State Personnel Development	STS1	84.323	160,800	42,456
English Language Acquisition Grants	T3S1	84.365	19,870	20,076
<b>Total United States Department of Education</b>			1,203,699	1,289,105
<b>Total Federal Financial Assistance</b>			<u>\$ 1,203,699</u>	<u>\$ 1,289,105</u>

N - Direct from federal agency

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

Educational Service Center of Lorain County  
Notes to Schedule of Federal Awards Receipts and Expenditures  
For the Fiscal Year Ended June 30, 2009

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards receipts and expenditures includes the federal grant activity of the Educational Service Center of Lorain County and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OM B Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

Members of the Board  
Educational Service Center of Lorain County  
1885 Lake Avenue  
Elyria, Ohio 44035

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lorain County (the Center) as of and for the year ended June 30, 2009 which collectively comprise the Center's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 7, 2010, wherein we noted the Center implemented GASB Statements No. 52 and 53. 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' *Governmental Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not to opine 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies, resulting in more than a remote likelihood that the Center's internal control will not prevent a material financial statement misstatement.

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

Members of the Board

Educational Service Center of Lorain County

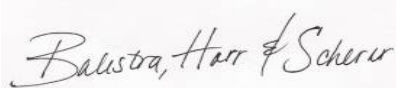
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Page 2

**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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the management, members of the Board, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.  
January 7, 2010

# BALESTRA, HARR & SCHERER, CPAs, INC.

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board  
Educational Service Center of Lorain County  
1885 Lake Avenue  
Elyria, Ohio 44035

### **Compliance**

We have audited the compliance of Educational Service Center of Lorain County, Lorain 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 are applicable to each of its major federal programs for the year ended June 30, 2009. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Center's management. 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 contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 types of 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 as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

### **Internal Control Over Compliance**

The management of the Center 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

Board of Education

Educational Service Center of Lorain County

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Page 2

### **Internal Control Over Compliance (Continued)**

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Center's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of the 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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

January 7, 2010

**Educational Service Center of Lorain County**  
Schedule of Findings  
OMB Circular A-133 Section .505  
For the Fiscal Year Ended June 30, 2009

**SUMMARY OF AUDITOR'S RESULTS**

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

**Educational Service Center of Lorain County**  
Schedule of Findings  
OMB Circular A-133 Section .505  
For the Fiscal Year Ended June 30, 2009

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

None

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None



**Mary Taylor, CPA**  
Auditor of State

**EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY**

**LORAIN 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  
APRIL 8, 2010**