

# **Educational Service Center of Cuyahoga County, Ohio**

**Basic Financial Statements  
June 30, 2010**





# Dave Yost • Auditor of State

Members of the Governing Board  
Educational Service Center of Cuyahoga County  
5811 Canal Road  
Valley View, Ohio 44125

We have reviewed the *Independent Auditors' Report* of the Educational Service Center of Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2009 through June 30, 2010. 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 Cuyahoga County is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

March 8, 2011

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# Educational Service Center of Cuyahoga County

For The Year Ended June 30, 2010

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## Independent Auditors' Report

Governing Board  
Educational Service Center of Cuyahoga County

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 Cuyahoga County, (the "Service Center") as of and for the year ended June 30, 2010, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Service Center, as of June 30, 2010, 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.

As described in Note 3 to the financial statements, during the year ended June 30, 2010, the Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Reporting for Intangible Assets*; GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*; GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

Governing Board  
Educational Service Center of Cuyahoga County

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2011, on our consideration of the Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The budgetary comparison information on pages 37 through 39 are not a required part of the basic financial statements but are supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Cini & Parichi, Inc.*

Cleveland, Ohio  
January 13, 2011



## **Educational Service Center of Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

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The management's discussion and analysis of the Educational Service Center of Cuyahoga County's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2010. The intent of the management's discussion and analysis is to look at the Service Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the Service Center's financial performance.

### **Financial Highlights**

Key financial highlights for 2010 include:

- In fiscal year 2010, total assets decreased and liabilities increased from fiscal year 2009. This resulted in an overall decrease in net assets of \$1,368,840. This decrease can be contributed to decreases in intergovernmental receivable and accounts receivables.
- The Service Center had a decrease in the number of students services are provided to of about 20,000 compared to 2009.
- Total revenues decreased from fiscal year 2009. This included a \$223,953 increase in program revenues and a \$336,376 decrease in general revenues. This can mainly be contributed to the decrease in interest revenue due to falling interest rates for investing purposes.
- Total program expenses decreased by \$795,026 from fiscal year 2009. The Service Center introduced cost cutting measures in order to counterbalance the limited revenues.
- Total capital assets decreased \$283,136 over fiscal year 2009. This was due to an additional year of depreciation on capital assets which were only partly offset by current year additions.

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

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Service Center, presenting both an aggregate view of the Service Center's finances and a longer-term view of those finances.

Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Service Center, the general fund and the local grant special revenue fund are the most significant funds.

## Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis  
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Unaudited*

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### 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 Service Center to provide services, the view of the Service Center as a whole considers all financial transactions and asks the questions, "Are we in a better financial position this year than last?" and "Why?" or "Why not?". The *Statement of Net Assets* and the *Statement of Activities* provide the basis for answering these questions. These statements include *all 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 Service Center's *net assets* and any changes in those assets. The change in net assets is important because it tells the readers that, for the Service Center as a whole, the *financial position* of the Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The *Statement of Net Assets* and the *Statement of Activities* are represented by one type of activity, Governmental Activities. The Service Center's programs and services are reported here including instruction, support services, operation of non-instructional services and extracurricular activities.

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

#### *Fund Financial Statements*

The analysis of the Service Center's major funds begins on page 8. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds are the general fund and the local grants and title VI-B special revenue funds.

**Governmental Funds.** Most of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the 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 Cuyahoga County

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

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### The Service Center as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the Service Center as a whole. Table 1 provides a summary of the Service Center's net assets for 2010 compared to 2009:

(Table 1)  
Net Assets

	<u>Governmental Activities</u>		
	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$31,881,627	\$32,840,945	(\$959,318)
Capital Assets, Net	<u>6,280,320</u>	<u>6,563,456</u>	<u>(283,136)</u>
<i>Total Assets</i>	<u>38,161,947</u>	<u>39,404,401</u>	<u>(1,242,454)</u>
<b>Liabilities</b>			
Current and Other Liabilities	7,114,430	7,051,382	63,048
Long-Term Liabilities:			
Due Within One Year	1,494,606	1,486,453	8,153
Due in More than One Year	<u>2,181,284</u>	<u>2,126,099</u>	<u>55,185</u>
<i>Total Liabilities</i>	<u>10,790,320</u>	<u>10,663,934</u>	<u>126,386</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	4,546,320	4,758,456	(212,136)
Restricted	186,766	520,967	(334,201)
Unrestricted	<u>22,638,541</u>	<u>23,461,044</u>	<u>(822,503)</u>
<i>Total Net Assets</i>	<u>\$27,371,627</u>	<u>\$28,740,467</u>	<u>(\$1,368,840)</u>

Total assets decreased due to a combination of factors. The primary factor is the decrease of intergovernmental receivables, capital assets and accrued interest receivable. Intergovernmental receivables decreased due to cuts to grant monies received from the State Department of Education. Investments earnings have plummeted due to the falling interest rates. Capital assets have decreased due to an additional year of depreciation which was offset by current year additions.

Liabilities increased as a result of increases in accrued wages and benefits and intergovernmental payable.

The net effect of the decrease in assets and the increase in liabilities resulted in a decrease of total net assets for fiscal year 2010.

## Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis  
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Unaudited*

Table 2 shows the change in net assets for fiscal year 2010 as compared to fiscal year 2009.

(Table 2)  
Change in Net Assets  
Governmental Activities

	2010	2009	Change
<b>Revenues</b>			
<i>Program Revenues:</i>			
Charges for Services and Sales	\$47,013,724	\$45,461,821	\$1,551,903
Operating Grants and Contributions	13,545,219	14,873,169	(1,327,950)
<i>Total Program Revenues</i>	<u>60,558,943</u>	<u>60,334,990</u>	<u>223,953</u>
<i>General Revenues:</i>			
Grants and Entitlements	6,565,325	6,311,011	254,314
Interest	102,054	389,229	(287,175)
Gain on Sale of Capital Assets	5,100	0	5,100
Miscellaneous	345,498	654,113	(308,615)
<i>Total General Revenues</i>	<u>7,017,977</u>	<u>7,354,353</u>	<u>(336,376)</u>
<b>Total Revenues</b>	<u>67,576,920</u>	<u>67,689,343</u>	<u>(112,423)</u>
<b>Program Expenses</b>			
Instruction	28,230,224	27,881,298	348,926
<i>Support Services:</i>			
Pupil and Instructional Staff	19,917,479	21,667,884	(1,750,405)
Board of Education, Administration, Fiscal and Business	12,827,715	14,250,159	(1,422,444)
Operation and Maintenance of Plant	970,161	935,590	34,571
Pupil Transportation	3,879	3,074	805
Central	202,346	153,962	48,384
Operation of Noninstructional Services	6,658,011	4,711,537	1,946,474
Extracurricular Activities	54,467	52,582	1,885
Interest and Fiscal Charges	81,478	84,700	(3,222)
<i>Total Program Expenses</i>	<u>68,945,760</u>	<u>69,740,786</u>	<u>(795,026)</u>
Decrease in Net Assets	(1,368,840)	(2,051,443)	682,603
<i>Net Assets Beginning of Year</i>	<u>28,740,467</u>	<u>30,791,910</u>	<u>(2,051,443)</u>
<i>Net Assets End of Year</i>	<u>\$27,371,627</u>	<u>\$28,740,467</u>	<u>(\$1,368,840)</u>

Program revenues increased due to increases in the number and amount of charges for services which was offset by decreases in operating grants and contributions. The Service Center derives significant income from fiscal fees and administering various grants and programs. The overall economy in Ohio has forced the State Department of Education and local school district clients to cut back thus impacting the Service Center's billing for basic services over the last few years. The Service Center provides many services that are the first to be cut in tough economic times which was apparent in 2009. Some of these services were utilized again in 2010 but not at the level of a few years ago. Program expenses decreased in response to

**Educational Service Center of Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

those declining billings and the number of grants as well as a decrease of students among the school districts. Personnel and program costs are tied directly to grant funding. Operation of non-instructional services expense decreased in fiscal year 2010 due to decreased enrollment in several programs.

***Governmental Activities***

A review of Table 2 illustrates the concept of sound fiscal management in the government sector. The Service Center's concept of bringing its fiscal agencies under a common campus to align services, share resources and create economies of scale does work. A willingness to honestly assess programs and discontinue unprofitable ones is key to long term operations. Flexibility and adherence to basic management principals is key to continued successful operations.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for governmental activities. Table 3 shows the total cost of services and the net cost of services. The (\$8,386,817) *Net Cost of Services 2010* tells the reader that overall these services are not self-supporting and must rely on unrestricted State entitlements and unrestricted net assets to operate this fiscal year.

(Table 3)  
Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Instruction	\$28,230,224	\$1,711,678	\$27,881,298	(\$4,263,336)
Support Services:				
Pupil and Instructional Staff	19,917,479	1,290,411	21,667,884	(2,514,078)
Board of Education, Administration, Fiscal and Business	12,827,715	(12,827,715)	14,250,159	(6,234,312)
Operation and Maintenance of Plant	970,161	(123,603)	935,590	186,482
Pupil Transportation	3,879	200	3,074	(505)
Central	202,346	(119,077)	153,962	(81,061)
Operation of Non-Instructional Services	6,658,011	1,759,137	4,711,537	3,594,360
Extracurricular Activities	54,467	3,630	52,582	(8,646)
Interest and Fiscal Charges	81,478	(81,478)	84,700	(84,700)
<b>Totals</b>	<b>\$68,945,760</b>	<b>(\$8,386,817)</b>	<b>\$69,740,786</b>	<b>(\$9,405,796)</b>

**The Service Center's Funds**

Information about the Service Center's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$70,995,205 and total expenditures of \$69,480,710, leaving a fund balance at fiscal year-end of \$22,003,506.

## Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis  
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The net change in fund balance for the year was most significant in the general fund with an increase of \$2,307,271. In comparison, all funds increased a total of \$1,529,995. This increase in fund balance can be contributed to increases in tuition and fees as well as charges for services. The general fund is the primary source of start up funds for many of the other grant activities. Fast response to client needs and starting up an activity before initial funding arrives is what separates the Service Center from its competition. The down side to such a philosophy is that the Service Center will be an early barometer to cut backs and difficult economic times. The nature of school employment law does make the Service Center vulnerable to second guessing the best management approach to riding out the down turn.

The local grants special revenue fund had total revenues of \$8,143,911. The majority of intergovernmental revenues are used to provide non-instructional community services. Total expenditures are used to provide the support, administrative and non-instructional services that include programs for handicapped students, family intervention and operation of the Professional Development Center. The net effect of the revenues received and the expenditures incurred leaves the local grant special revenue fund with a deficit fund balance at the end of fiscal year 2010.

The title VI-B special revenue fund had an increase in fund balance of \$406,261. This was due to additional grant monies being rewarded by the Ohio Department of Education. The net effect of the revenues received and the expenditures incurred leaves the title VI-B special revenue fund with a deficit fund balance at the end of fiscal year 2010; however, this is an increase from fiscal year 2009's deficit fund balance.

### Capital Assets

At the end of fiscal year 2010, the Service Center had \$6,280,320 invested in land, buildings and improvements and furniture and equipment. Capital assets decreased during the year due to an additional year of depreciation being offset by additions during the year to furniture and equipment. Table 4 shows fiscal year 2010 balances compared to fiscal year 2009. More detailed information is presented in Note 9 of the notes to the basic financial statements.

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

	Governmental Activities	
	2010	2009
Land	\$536,778	\$536,778
Buildings and Improvements	5,231,047	5,431,275
Furniture and Equipment	512,495	594,802
Vehicles	0	601
<i>Total Capital Assets</i>	<u>\$6,280,320</u>	<u>\$6,563,456</u>

## **Educational Service Center of Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

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### **Debt**

The Service Center entered into a capital lease through a lease-purchase agreement in the amount of \$2,000,000 in 2006 for capital improvements for the Service Center's buildings. At the end of fiscal year 2010, the outstanding balance on the lease was \$1,734,000. More detailed information is presented in Note 14 and 15 of the notes to the basic financial statements.

### **Current Financial Related Activities**

The Service Center continues to be financially stable and is able to continue to offer the programs needed to enrich and service the various school districts. The Board and administration closely monitor its revenues and expenditures in accordance with Board policy.

Fiscal year 2010 was a good year from a service delivery standpoint although financially the Service Center suffered a deficit. The Service Center delivered valuable programs to its clients and school districts in the face of unprecedented cut backs and economic downturn. Preserving school district relations is as critical as the finances.

While many outside factors can and will affect the economy and base operations, the Service Center is committed to provide the best possible services and be fiscally responsible now and in future years. The Service Center is constantly evaluating its programs and expanding where it can provide cost effective services to school districts. Cost effective services to districts is the Service Center's guiding mission. If the Service Center does not provide efficiency, there is no reason for a district to contract with the Service Center. Trust, flexibility and responsiveness are key to the Service Center's success.

### **Contacting the Service Center's Financial Management**

This financial report provides our citizen's, taxpayers, and investors and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Bruce Basalla, Treasurer at the Service Center, 5811 Canal Road, Valley View, Ohio, 44125.

**Educational Service Center of Cuyahoga County**

*Statement of Net Assets*

*June 30, 2010*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$21,913,229
Accrued Interest Receivable	7,886
Accounts Receivable	1,965
Intergovernmental Receivable	9,958,547
Nondepreciable Capital Assets	536,778
Depreciable Capital Assets, Net	<u>5,743,542</u>
<i>Total Assets</i>	<u>38,161,947</u>
<b>Liabilities</b>	
Accounts Payable	956,004
Accrued Wages and Benefits	4,531,199
Intergovernmental Payable	1,624,471
Matured Compensated Absences	2,756
Long-Term Liabilities:	
Due Within One Year	1,494,606
Due In More Than One Year	<u>2,181,284</u>
<i>Total Liabilities</i>	<u>10,790,320</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	4,546,320
Restricted for:	
Other Purposes	186,766
Unrestricted	<u>22,638,541</u>
<i>Total Net Assets</i>	<u><u>\$27,371,627</u></u>

See accompanying notes to the basic financial statements



**Educational Service Center of Cuyahoga County**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2010*

	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$513,719	\$405,462	\$100,687	(\$7,570)
Special	27,296,479	28,020,981	973,396	1,697,898
Vocational	418,304	441,376	0	23,072
Adult/Continuing	1,722	0	0	(1,722)
Support Services:				
Pupil	5,679,711	4,695,955	863,823	(119,933)
Instructional Staff	14,237,768	12,463,947	3,184,165	1,410,344
Board of Education	78,613	0	0	(78,613)
Administration	11,224,618	0	0	(11,224,618)
Fiscal	1,512,193	0	0	(1,512,193)
Business	12,291	0	0	(12,291)
Operation and Maintenance of Plant	970,161	846,558	0	(123,603)
Pupil Transportation	3,879	4,079	0	200
Central	202,346	77,269	6,000	(119,077)
Operation of Non-Instructional Services	6,658,011	0	8,417,148	1,759,137
Extracurricular Activities	54,467	58,097	0	3,630
Interest and Fiscal Charges	81,478	0	0	(81,478)
<i>Totals</i>	<u>\$68,945,760</u>	<u>\$47,013,724</u>	<u>\$13,545,219</u>	<u>(8,386,817)</u>
<b>General Revenues</b>				
Grants and Entitlements not Restricted to Specific Programs				6,565,325
Investment Earnings				102,054
Gain on Sale of Capital Asset				5,100
Miscellaneous				<u>345,498</u>
<i>Total General Revenues</i>				<u>7,017,977</u>
Change in Net Assets				(1,368,840)
<i>Net Assets Beginning of Year</i>				<u>28,740,467</u>
<i>Net Assets End of Year</i>				<u><u>\$27,371,627</u></u>

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**

*Balance Sheet*

*Governmental Funds*

*June 30, 2010*

	<u>General</u>	<u>Local Grants</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$18,173,447	\$1,054,612	\$867,422	\$1,817,748	\$21,913,229
Receivables:					
Accrued Interest	7,886	0	0	0	7,886
Accounts	1,965	0	0	0	1,965
Intergovernmental	7,126,455	1,452,845	771,112	608,135	9,958,547
Interfund Receivable	5,852,555	0	0	0	5,852,555
<i>Total Assets</i>	<u>\$31,162,308</u>	<u>\$2,507,457</u>	<u>\$1,638,534</u>	<u>\$2,425,883</u>	<u>\$37,734,182</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$137,451	\$749,534	\$22,152	\$46,867	\$956,004
Accrued Wages and Benefits	4,197,537	22,494	218,137	93,031	4,531,199
Intergovernmental Payable	1,328,166	77,932	69,548	148,825	1,624,471
Matured Compensated Absences	0	0	0	2,756	2,756
Interfund Payable	0	2,518,400	1,240,882	2,093,273	5,852,555
Deferred Revenue	1,540,712	871,024	147,401	204,554	2,763,691
<i>Total Liabilities</i>	<u>7,203,866</u>	<u>4,239,384</u>	<u>1,698,120</u>	<u>2,589,306</u>	<u>15,730,676</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	1,069,089	223,230	290,909	438,734	2,021,962
Unreserved, Undesignated					
Reported in:					
General Fund	22,889,353	0	0	0	22,889,353
Special Revenue Funds (Deficit)	0	(1,955,157)	(350,495)	(602,157)	(2,907,809)
<i>Total Fund Balances (Deficit)</i>	<u>23,958,442</u>	<u>(1,731,927)</u>	<u>(59,586)</u>	<u>(163,423)</u>	<u>22,003,506</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$31,162,308</u>	<u>\$2,507,457</u>	<u>\$1,638,534</u>	<u>\$2,425,883</u>	<u>\$37,734,182</u>

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Assets of Governmental Activities*  
*June 30, 2010*

<b>Total Governmental Fund Balances</b>		\$22,003,506
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		6,280,320
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Tuition and Fees	1,048,789	
Charges for Services	241,123	
Grants	351,955	
Miscellaneous	250,800	
Reimbursable Expenses	871,024	
Total		2,763,691
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(1,941,890)	
Capital Lease	(1,734,000)	
Total		(3,675,890)
<i>Net Assets of Governmental Activities</i>		\$27,371,627

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2010*

	General	Local Grants	Title VI-B	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Intergovernmental	\$6,565,325	\$8,143,911	\$3,444,060	\$2,407,345	\$20,560,641
Interest	102,054	0	0	0	102,054
Tuition and Fees	37,509,489	0	0	0	37,509,489
Rentals	446,042	0	0	0	446,042
Charges for Services	12,275,741	0	0	0	12,275,741
Extracurricular Activities	814	0	0	0	814
Contributions and Donations	5,726	0	0	0	5,726
Miscellaneous	94,698	0	0	0	94,698
<i>Total Revenues</i>	<u>56,999,889</u>	<u>8,143,911</u>	<u>3,444,060</u>	<u>2,407,345</u>	<u>70,995,205</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	385,529	0	0	106,854	492,383
Special	26,499,534	0	438,594	219,785	27,157,913
Vocational	429,778	0	0	0	429,778
Adult/Continuing	0	0	0	1,722	1,722
Support Services:					
Pupil	4,463,549	1,318,034	213,111	480,944	6,475,638
Instructional Staff	11,820,906	5,242	1,583,203	769,941	14,179,292
Board of Education	78,613	0	0	0	78,613
Administration	9,074,578	1,207,672	245,332	449,445	10,977,027
Fiscal	857,379	276,488	220,179	154,758	1,508,804
Business	13,526	0	0	0	13,526
Operation and Maintenance of Plant	800,047	0	101,322	77,418	978,787
Pupil Transportation	3,879	0	0	0	3,879
Central	73,497	0	0	127,840	201,337
Operation of Non-Instructional Services	358	6,535,308	236,058	3,342	6,775,066
Extracurricular Activities	54,467	0	0	0	54,467
Debt Service:					
Principal Retirement	71,000	0	0	0	71,000
Interest and Fiscal Charges	81,478	0	0	0	81,478
<i>Total Expenditures</i>	<u>54,708,118</u>	<u>9,342,744</u>	<u>3,037,799</u>	<u>2,392,049</u>	<u>69,480,710</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	2,291,771	(1,198,833)	406,261	15,296	1,514,495
<b>Other Financing Sources</b>					
Proceeds from Sale of Capital Assets	15,500	0	0	0	15,500
<i>Net Change in Fund Balances</i>	2,307,271	(1,198,833)	406,261	15,296	1,529,995
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>21,651,171</u>	<u>(533,094)</u>	<u>(465,847)</u>	<u>(178,719)</u>	<u>20,473,511</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$23,958,442</u>	<u>(\$1,731,927)</u>	<u>(\$59,586)</u>	<u>(\$163,423)</u>	<u>\$22,003,506</u>

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2010*

**Net Change in Fund Balances - Total Governmental Funds** \$1,529,995

*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 are allocated over their useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Asset Additions	66,425	
Current Year Depreciation	(339,161)	
	(339,161)	
Total		(272,736)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (10,400)

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

Tuition and Fees	(3,032,264)	
Charges for Services	(186,098)	
Grants	(455,823)	
Miscellaneous	250,800	
Reimbursable Expenses	871,024	
	871,024	
Total		(2,552,361)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 71,000

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (134,338)

*Change in Net Assets of Governmental Activities* (\$1,368,840)

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**

*Statement of Fiduciary Assets and Liabilities*

*Agency Funds*

*June 30, 2010*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$464,206
Accounts Receivable	11,917
Intergovernmental Receivable	208,167
Accrued Interest Receivable	39
	<hr/>
<i>Total Assets</i>	<u><u>\$684,329</u></u>
<b>Liabilities</b>	
Accounts Payable	\$3,830
Intergovernmental Payable	64,718
Undistributed Monies	615,781
	<hr/>
<i>Total Liabilities</i>	<u><u>\$684,329</u></u>

See accompanying notes to the basic financial statements

# **Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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## **Note 1 – Description of the Service Center**

In 1914, the Educational Service Center of Cuyahoga County (the Service Center) was formed. The Service Center supplies special education, supervisory, administrative, fiscal and other needed services to area school districts in Cuyahoga, Lake, Lorain, and Geauga Counties.

The Service Center operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State or federal agencies to one exempted village, three local, and twenty-seven city school districts and to two career centers. The Board controls the Service Center's staff who provide services to over 163,000 students. The Service Center's Positive Education Program (PEP) also draws students from all of northeast Ohio, sometimes from as far away as Toledo and Columbus.

### ***Reporting Entity***

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

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

The Service Center participates in four jointly governed organizations. These organizations are the Lakeshore Northeast Ohio Computer Association, North Coast Educational Media Center, Positive Education Program, and the Educational Regional Service System Region 3. These organizations are presented in Note 16 in the notes to the basic financial statements.

## **Note 2 – Summary of Significant Accounting Policies**

The financial statements of Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the Service Center's accounting policies are described below.

# Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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## ***Basis of Presentation***

The 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 Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities that are governmental and those that are considered business-type. The Service Center, however, has only governmental activities.

The statement of net assets presents the financial condition of the governmental activities of the 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 Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity is self-financing or draws from the general revenues of the Service Center.

***Fund Financial Statements*** During the fiscal year, the Service Center segregates transactions related to certain 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 Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

## ***Fund Accounting***

The Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the Service Center are divided into two categories: governmental and fiduciary.

***Governmental Funds*** Governmental funds are those through which most governmental functions of the Service Center typically are financed. Governmental fund reporting focuses 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 Service Center has the following major governmental funds.

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

***Local Grants Fund*** The local grants special revenue fund accounts for proceeds of specific revenue sources, except for state and federal grants, that are legally restricted to expenditures for specific purposes.



# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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***Title VI-B Fund*** The title VI-B special revenue fund accounts for federal monies used to assist schools in the identification of handicapped children, development of procedural safeguards, implementation of least restrictive alternative service patterns, and provision of full educational opportunities to handicapped children at the preschool, elementary and secondary levels.

The other governmental funds of the 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 Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Service Center's agency funds report resources that belong to other organizations.

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

### ***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 between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010*

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Nonexchange transactions, in which the 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Service Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the 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 year-end: interest, tuition, grants, fees, customer services and charges for services.

***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

### ***Cash and Cash Equivalents***

To improve cash management, cash received by the Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Service Center records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

During fiscal year 2010, investments were limited to Commercial Paper and STAR Ohio. Investments are reported at fair value. Fair value for the mutual fund is based on the fund's current share price.

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, 2010.

Following Ohio statutes, the Board has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$102,054 which includes \$17,417 assigned from other Service Center funds.

# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010*

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Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

### ***Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Service Center maintains a capitalization threshold of five hundred dollars. The 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.

All capital assets are depreciated except for land. 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>Description</u>	<u>Estimated Lives</u>
Buildings	75 years
Building Improvements	15 years
Furniture and Equipment	5-20 years
Vehicles	2-5 years

### ***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 on government activity column of the statement of net assets.

### ***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 Service Center will compensate the employees for the benefits through paid time off or some other means. The Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Service

# **Educational Service Center of Cuyahoga County**

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010*

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Center's termination policy. The Service Center records a liability for accumulated unused sick leave for classified, certified and administrative employees after ten years of current service with the Service Center.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the general fund.

### ***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements or the fiduciary funds net assets statement.

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, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for the payment during the current fiscal year.

### ***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 borrowing 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 Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include the Peer Assistance, Refugee Children School Impact, Professional Development, Title VI-B and Title I.

The Service Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

### ***Fund Balance Reserves***

The Service Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances.

### ***Internal Activity***

Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a

# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### ***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 Board and that are either unusual in nature or infrequent in occurrence.

### ***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.

### **Note 3 - Change in Accounting Principles**

For fiscal year 2010, the Service Center has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, "Accounting and Reporting for Intangible Assets", Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the Service Center's financial statements.

GASB Statement No. 53 enhances the usefulness and comparability of derivative instrument information reported by state and local governments. This Statement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. The implementation of this statement did not result in any change to the Service Center's financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the Service Center's financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the Service Center's financial statements.

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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### **Note 4 – Fund Deficits**

Fund balances at June 30, 2010, included the following individual fund deficits:

*Special Revenue Funds:*

Local Grants	\$1,731,927
Title VI-B	59,586
Peer Assistance	67,817
Title III	1,623
Title I	35,988
Miscellaneous Federal Grants	131,856

These deficits are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

### **Note 5 – Deposits and Investments**

Monies held by the Service Center are classified by State statute into three categories.

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

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

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

Interim monies held by the Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

### ***Deposits***

Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$18,451,231 of the Service Center's bank balance of \$21,853,229 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Service Center to a successful claim by the FDIC.

The Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

### ***Investments***

As of June 30, 2010, the Service Center had Commercial Paper and STAR Ohio investments. All investments are in an internal investment pool.

	Fair Value	Maturity	Standard & Poor's Rating	Percentage of Total Investments
STAR Ohio	\$90,814	Average 56.0 Days	AAA	N/A
Commercial Paper	1,997,350	Less than one year	A1	95.65%
Total	<u>\$2,088,164</u>			

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

**Interest Rate Risk** The Service Center has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk** The Standard and Poor's rating's of the Service Center's investments are listed in the table above. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service; commercial paper must be rated at the time of purchase in the highest classification established by two nationally recognized standard rating services. The Service Center has no investment policy that would further limit its investment choices.

### Note 6 – Receivables

Receivables at June 30, 2010, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full within one year.

A summary of the principal items of intergovernmental receivables follows:

<b>Governmental Activities</b>	<b>Amounts</b>
Positive Education Program	\$7,126,455
Local Grants	1,452,845
Title VI-B Grant Subsidy	771,112
Peer Assistance Grant Subsidy	265,252
Miscellaneous Federal Grant Subsidy	183,489
Title I Grant Subsidy	118,014
Professional Development Grant Subsidy	12,980
Refugee Children School Impact Grant Subsidy	9,800
Preschool Disabilities Grant Subsidy	7,108
Improving Teacher Quality Subsidy	6,000
Alternative Schools Subsidy	3,838
LEP/Immigrant/Title III Grant Subsidy	1,654
<b>Total</b>	<b>\$9,958,547</b>

### Note 7 – State Funding

The Service Center, under State law, provides supervisory services to local school districts within its territory. Each city, local and exempted village school district that entered into an agreement with the Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services to the Service Center's local and client school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State foundation program settlements and remits the amount to the Service Center. The Service Center may provide additional supervisory services if the majority of local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.



## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

The Service Center also receives funding from the State Department of Education in the amount of \$26.52 times the average daily membership of the Service Center. Average daily membership includes the total student counts of all local school districts within the Service Center's territory and all of the Service Center's client school districts. This amount is paid from State resources. The Department of Education also deducts from the State foundation program settlement of each of the Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Service Center.

The Service Center may contract with city, exempted village, local, joint vocational or cooperative education school districts to provide special education and related services or career-technical education services. The individual boards of education pay the costs for these services directly to the Service Center.

### Note 8 – Interfund Transactions

Interfund balances at June 30, 2010, consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable
	General Fund
<i>Governmental Activities</i>	
Local Grants	\$2,518,400
Title VI-B	1,240,882
<i>Non-Major Funds</i>	
Literacy	15,000
Professional Development	25,000
Alternative Schools	4,000
Peer Assistance	589,091
Title III	29,000
Refugee Children Impact	38,000
Title I	216,619
Preschool Disabilities	18,000
Improving Teacher Quality	12,630
Miscellaneous Federal Grant	1,145,933
<i>Total Governmental Activities</i>	<u><u>\$5,852,555</u></u>

The interfund payables are advances for grant monies that were not received by fiscal year end. The Service Center expects to receive the grant monies and repay the loans within the next fiscal year.

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

### Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 6/30/09	Additions	Deletions	Balance 6/30/10
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$536,778	\$0	\$0	\$536,778
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	6,102,046	0	0	6,102,046
Furniture and Equipment	1,030,467	66,425	(24,000)	1,072,892
Vehicles	28,882	0	(28,882)	0
<i>Total Capital Assets, being depreciated</i>	<u>7,161,395</u>	<u>66,425</u>	<u>(52,882)</u>	<u>7,174,938</u>
Less Accumulated Depreciation				
Buildings and Improvements	(670,771)	(200,228)	0	(870,999)
Furniture and Equipment	(435,665)	(138,332)	13,600	(560,397)
Vehicles	(28,281)	(601)	28,882	0
<b>Total Accumulated Depreciation</b>	<u>(1,134,717)</u>	<u>(339,161) *</u>	<u>42,482</u>	<u>(1,431,396)</u>
<b>Total Capital Assets, being depreciated, net</b>	<u>6,026,678</u>	<u>(272,736)</u>	<u>(10,400)</u>	<u>5,743,542</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$6,563,456</u>	<u>(\$272,736)</u>	<u>(\$10,400)</u>	<u>\$6,280,320</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$28,005
Special	19,200
Support Services:	
Pupil	4,981
Instructional Staff	30,001
Administration	235,635
Fiscal	20,330
Central	1,009
<b>Total Depreciation Expense</b>	<u>\$339,161</u>

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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### Note 10 – Risk Management

#### *Property and Liability*

The 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 2010, the Service Center contracted with The Netherlands Insurance Company for the following insurance:

Type	Amount
General Liability:	
Bodily Injury (Aggregate Limit)	\$3,000,000
Personal Injury/Advertising Liability	1,000,000
Products/Completed Operations	2,000,000
General Annual Aggregate	2,000,000
Fire Legal Liability	300,000
Sexual Misconduct & Molestation Liability	1,000,000
Medical Expense Limit	15,000
Property	
Blanket Building and Contents	6,097,263
Educators' Legal Liability:	
Errors or Omissions Coverage	1,000,000
Automobile Liability:	
Medical Payments	5,000
Uninsured/Underinsured Motorist	1,000,000
Bodily Injury and Property Damage	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

#### *Workers' Compensation*

The Service Center pays a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The firm of Sheakley UniServices, Inc. provides administrative, cost control and actuarial services to the Service Center.

### Note 11 – Pension Plans

#### *School Employee Retirement System*

Plan Description – The Service Center 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

## **Educational Service Center of Cuyahoga County**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010*

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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 Service Center is required to contribute at an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 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 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 Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$2,462,987, \$1,760,184 and \$1,724,298, respectively; 92.78 percent has been contributed for fiscal year 2010 and 100 percent has been contributed for fiscal year 2009 and 2008.

#### ***State Teachers Retirement System***

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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 of 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, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers

## **Educational Service Center of Cuyahoga County**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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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 Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$2,911,452, \$2,898,026 and \$2,736,288, respectively; 89.51 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$162,685 made by the Service Center and \$116,204 made by the plan members.

### **Note 12 – Postemployment Benefits**

#### ***School Employee Retirement System***

Plan Description – The Service Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 1.22 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800. During fiscal year 2010, the Service Center paid \$307,224 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Service Center's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008 were \$395,876, \$1,103,920 and \$1,084,675, respectively; 92.78 percent has been contributed for fiscal years 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009 and 2008, were \$146,469, \$145,230 and \$124,240 respectively; 92.78 percent has been contribution for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

## **Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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### ***State Teachers Retirement System***

Plan Description – The Service Center 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 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Service Center's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008 were \$223,958, \$222,925 and \$210,484 respectively; 89.51 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

### **Note 13 – Other Employee Benefits**

#### ***Compensated Absences***

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn up to twenty days of vacation per fiscal year, depending upon length of service. Vacation is paid upon separation. All employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for all employees.

Upon retirement, classified employees who have at least ten years service credit with SERS (the last ten years with the Service Center) are paid one-fourth of their accumulated sick days up to a maximum accumulation of 120 days. Certified employees, administrators and supervisors who have at least ten years service credit with the State (the last five years with the Service Center), are paid one-fourth of their accumulated sick days up to a maximum accumulation of 120 days.

#### ***Life Insurance***

The Service Center provides life insurance and accidental death and dismemberment insurance to all employees through the Met Life Insurance Company.

#### ***Health Insurance***

The Service Center provides medical/surgical insurance and prescription drug coverage through Kaiser Permanente, Anthem Blue Cross and Blue Shield, and Medical Mutual to all eligible employees. Vision insurance is provided through Medical Mutual, and dental insurance is provided through MetLife.

**Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

**Note 14 – Long-Term Obligations**

The changes in the Service Center’s long-term obligations during fiscal year 2010 were as follows:

	<u>Outstanding June 30, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2010</u>	<u>Due Within One Year</u>
Capital Lease	\$1,805,000	\$0	\$71,000	\$1,734,000	\$75,000
Compensated Absences	<u>1,807,552</u>	<u>1,549,791</u>	<u>1,415,453</u>	<u>1,941,890</u>	<u>1,419,606</u>
Total	<u><u>\$3,612,552</u></u>	<u><u>\$1,549,791</u></u>	<u><u>\$1,486,453</u></u>	<u><u>\$3,675,890</u></u>	<u><u>\$1,494,606</u></u>

The capital lease will be paid from the general fund. Compensated absences will be paid from the general fund and the local grants and Title VI-B special revenue funds.

**Note 15 – Capital Lease**

During fiscal year 2006, the Service Center entered into a capital lease for capital improvements to the Service Center’s buildings. This lease meets the criteria for capital leases as defined by Statement of Financial Accounting Standards No. 13 “Accounting for Leases.” Capital assets acquired by lease have been capitalized in the amount of \$2,000,000. This amount represents the present value of the minimum lease payments at the time of acquisition. The assets acquired through capital lease are as follows:

Asset:	
Buildings and Improvements	\$2,000,000
Less: Accumulated Depreciation	<u>(266,667)</u>
Total Book Value as of June 30, 2010	<u><u>\$1,733,333</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2010.

	<u>Governmental Activities</u>
2011	\$153,090
2012	152,544
2013	152,832
2014	152,936
2015	152,855
2016-2020	764,054
2021-2025	765,553
2026	<u>152,888</u>
Total Minimum Lease Payments	2,446,752
Less: Amounts Representing Interest	<u>(712,752)</u>
Present Value of Minimum Lease Payments	<u><u>\$1,734,000</u></u>

## **Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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### **Note 16 – Jointly Governed Organizations**

#### ***Lakeshore Northeast Ohio Computer Association (LNOCA)***

LNOCA is a jointly governed organization among sixteen school districts in Cuyahoga County and the Service Center. 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. Each of the districts supports LNOCA based on a per pupil charge. The Service Center contributed \$154,498 to LNOCA during the fiscal year 2010.

The Governing Board consists of superintendents of each participating school district and the Service Center. The degree of control exercised by any participant is limited to its representation of the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of LNOCA's financial statements, write to the Service Center at 5811 Canal Road, Valley View, Ohio 44125.

#### ***North Coast Educational Media Center (Media Center)***

The Media Center is a jointly governed organization among seventeen school districts and the Service Center. The jointly governed organization was formed for the purpose of providing media services to the participants. Each of the districts supports the Media Center based on a per pupil charge. The Media Center is a jointly governed organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The Service Center did not make any contributions to the Media Center in the fiscal year 2010.

The Governing Board consists of a representative of each participating school district. The degree of control exercised by any participant is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of the Media Center's financial statements, write to the Service Center at 5811 Canal Road, Valley View, Ohio 44125.

#### ***Positive Education Program (PEP)***

The PEP is a non-profit organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center contributed \$25,000 to PEP in fiscal year 2010.

PEP's twelve member governing board consists of: three superintendents elected from the participating school districts, three attorneys, one representative of the business community, one representative of the education community, and four consumers. The degree of control exercised by any participating school district is limited to its representation on the Board. To obtain a copy of the PEP's financial statements, write to the Positive Education Program at 3100 Euclid Avenue, Cleveland, Ohio 44115-2508.

#### ***Educational Regional Service System Region 3***

The Service Center participates in the Educational Regional Service System (ERSS) Region 3, a jointly governed organization consisting of educational entities within Cuyahoga County. The ERSS selects its own board, adopts its own budget and receives Ohio Department of Education grants for its operations. The purpose of the ERSS is to provide support services to school districts, community schools, and



## **Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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chartered nonpublic schools within the region by supporting State and school initiatives and efforts to improve school effectiveness and student achievement with a specific reference to the provision of special education and related services. The Service Center did not make any contributions to ERSS in fiscal year 2010.

The ERSS is governed by an advisory council, which is the policymaking body for the educational entities within the region, who identifies regional needs and priorities for educational services and develops corresponding policies to coordinate the delivery of services. They are also charged with the responsibility of monitoring the implementation of State and regional initiatives and school improvement efforts. The Advisory Council is made up of the director of the ERSS, the superintendent of each educational service center within the region, the superintendent of the region's largest and smallest school district, the director and an employee from each education technology center, one representative of a four-year institution of higher education and appointed by the Ohio Board of Regents, one representative of a two-year institution of higher education and appointed by the Ohio Association of Community Colleges, three board of education members (one each from a city, exempted village, and local school district within the region), and one business representative. The degree of control exercised by any participating educational entity is limited to its representation on the Advisory Council. To obtain a copy of the ERSS's financial statements, write to the Service Center at 5811 Canal Road, Valley View, Ohio 44125.

### **Note 17 – Contingencies**

#### ***Grants***

The Service Center received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally require 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 Service Center at June 30, 2010.

#### ***Litigation***

The Service Center is a party to legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2010.

## Supplemental Information

**Educational Service Center of Cuyahoga County**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2010*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Intergovernmental	\$6,533,636	\$6,533,636	\$6,533,636	\$0
Interest	158,513	158,513	158,513	0
Tuition and Fees	38,935,873	38,935,873	38,935,873	0
Rentals	444,527	444,527	444,527	0
Charges for Services	12,034,509	12,034,509	12,034,509	0
Extracurricular Activities	814	814	814	0
Contributions and Donations	5,726	5,726	5,726	0
Miscellaneous	56,783	56,783	61,169	4,386
<i>Total Revenues</i>	<u>58,170,381</u>	<u>58,170,381</u>	<u>58,174,767</u>	<u>4,386</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	550,564	550,564	538,848	11,716
Special	26,714,390	26,714,390	26,356,000	358,390
Vocational	416,654	416,654	411,064	5,590
Support Services:				
Pupil	4,497,908	4,497,908	4,437,785	60,123
Instructional Staff	12,137,460	12,137,460	11,976,572	160,888
Board of Education	80,265	80,265	79,188	1,077
Administration	10,100,363	10,100,363	9,974,736	125,627
Fiscal	1,093,113	1,093,113	1,081,864	11,249
Business	17,152	17,152	16,922	230
Operation and Maintenance of Plant	1,033,651	1,033,651	1,020,100	13,551
Pupil Transportation	4,287	4,287	4,229	58
Central	76,618	76,618	75,611	1,007
Operation of Non-Instructional Services	363	363	358	5
Extracurricular Activities	54,741	54,741	54,007	734
<i>Total Expenditures</i>	<u>56,777,529</u>	<u>56,777,529</u>	<u>56,027,284</u>	<u>750,245</u>
<i>Excess of Revenues Over Expenditures</i>	<u>1,392,852</u>	<u>1,392,852</u>	<u>2,147,483</u>	<u>754,631</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Asset	15,500	15,500	15,500	0
Advances In	4,846,900	4,846,900	4,846,900	0
Advances Out	(5,730,400)	(5,730,400)	(5,730,400)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(868,000)</u>	<u>(868,000)</u>	<u>(868,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	524,852	524,852	1,279,483	754,631
<i>Fund Balance Beginning of Year</i>	14,159,969	14,159,969	14,159,969	0
Prior Year Encumbrances Appropriated	<u>1,025,606</u>	<u>1,025,606</u>	<u>1,025,606</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$15,710,427</u>	<u>\$15,710,427</u>	<u>\$16,465,058</u>	<u>\$754,631</u>

See accompanying notes to the supplemental information

**Supplemental Information**

**Educational Service Center of Cuyahoga County**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Local Grants Fund*  
*For the Fiscal Year Ended June 30, 2010*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$8,143,908	\$8,143,908	\$8,143,911	\$3
<b>Expenditures</b>				
Current:				
Support Services:				
Pupil	852,633	852,633	852,633	0
Instructional Staff	5,242	5,242	5,242	0
Administration	1,331,777	1,331,777	1,331,777	0
Fiscal	287,188	287,188	287,188	0
Operation of Non-Instructional Services	4,968,356	4,968,356	4,968,356	0
<i>Total Expenditures</i>	<u>7,445,196</u>	<u>7,445,196</u>	<u>7,445,196</u>	<u>0</u>
<i>Excess of Revenues Over Expenditures</i>	<u>698,712</u>	<u>698,712</u>	<u>698,715</u>	<u>3</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	2,518,400	2,518,400	2,518,400	0
Advances Out	(3,229,613)	(3,229,613)	(4,011,300)	(781,687)
<i>Total Other Financing Sources (Uses)</i>	<u>(711,213)</u>	<u>(711,213)</u>	<u>(1,492,900)</u>	<u>(781,687)</u>
<i>Net Change in Fund Balance</i>	(12,501)	(12,501)	(794,185)	(781,684)
<i>Fund Balance Beginning of Year</i>	195,306	195,306	195,306	0
Prior Year Encumbrances Appropriated	<u>610,849</u>	<u>610,849</u>	<u>610,849</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$793,654</u>	<u>\$793,654</u>	<u>\$11,970</u>	<u>(\$781,684)</u>

See accompanying notes to the supplemental information

**Supplemental Information**

**Educational Service Center of Cuyahoga County**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Title VI-B*  
*For the Fiscal Year Ended June 30, 2010*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$2,820,349	\$2,820,349	\$2,820,349	\$0
<b>Expenditures</b>				
Current:				
Instruction:				
Special	588,276	588,276	511,372	76,904
Support Services:				
Pupil	254,963	254,963	221,871	33,092
Instructional Staff	1,999,799	1,999,799	1,770,954	228,845
Administration	252,073	252,073	220,774	31,299
Fiscal	290,631	290,631	265,542	25,089
Operation and Maintenance of Plant	116,560	116,560	101,322	15,238
Central	4,172	4,172	3,627	545
Operation of Non-Instructional Services	350,824	350,824	307,620	43,204
<i>Total Expenditures</i>	<u>3,857,298</u>	<u>3,857,298</u>	<u>3,403,082</u>	<u>454,216</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,036,949)</u>	<u>(1,036,949)</u>	<u>(582,733)</u>	<u>454,216</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	1,185,000	1,185,000	1,185,000	0
Advances Out	<u>(176,000)</u>	<u>(176,000)</u>	<u>(176,000)</u>	<u>0</u>
<i>Total Other Financing Sources (Uses)</i>	<u>1,009,000</u>	<u>1,009,000</u>	<u>1,009,000</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(27,949)	(27,949)	426,267	454,216
<i>Fund Balance Beginning of Year</i>	150	150	150	0
Prior Year Encumbrances Appropriated	<u>30,919</u>	<u>30,919</u>	<u>30,919</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$3,120</u></u>	<u><u>\$3,120</u></u>	<u><u>\$457,336</u></u>	<u><u>\$454,216</u></u>

See accompanying notes to the supplemental information

# Educational Service Center of Cuyahoga County

*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2010*

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## **Note 1 – Budgetary Basis of Accounting**

### ***Budgetary Process***

The Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources. The resolution 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 all funds.

The Treasurer reviews the prior year's revenues and factors in the wages expected to be charged for the services offered and the grants anticipated to be received in order to determine the estimated resources for the current year. The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts of the estimated resources approved by the Board when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts of the estimated resources 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 years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

### ***Budgetary Basis of Accounting***

While the Service Center is reporting financial position, results of operations and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general fund and the major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

## Educational Service Center of Cuyahoga County

*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2010*

5. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
6. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statements on a fund type basis for the general fund and the local grants major special revenue fund.

	Net Change in Fund Balance		
	<u>General</u>	<u>Local Grants</u>	<u>Title VI-B</u>
GAAP Basis	\$2,307,271	(\$1,198,833)	\$406,261
Net Adjustment for Revenue Accruals	1,210,682	(5,086)	(615,892)
Ending Fair Value Adjustment for Investments	(1,170)	0	0
Beginning Unrecorded Cash	484,870	18,777	19,480
Ending Unrecorded Cash	(519,504)	(13,691)	(27,299)
Advance In	4,846,900	2,518,400	1,185,000
Net Adjustment for Expenditure Accruals	(131,451)	2,926,499	17,504
Advance Out	(5,730,400)	(4,011,300)	(176,000)
Adjustment for Encumbrances	<u>(1,187,715)</u>	<u>(1,028,951)</u>	<u>(382,787)</u>
Budget Basis	<u>\$1,279,483</u>	<u>(\$794,185)</u>	<u>\$426,267</u>

**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Governing Board  
Educational Service Center of Cuyahoga County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Cuyahoga County (the “Service Center”), as of and for the year ended June 30, 2010, which collectively comprise the Service Center’s basic financial statements and have issued our report thereon dated January 13, 2011, wherein we noted the Service Center adopted *GASB Statement Nos.’ 51, 53, 57, and 58*, as disclosed in Note 3. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Service Center’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Service Center’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Service Center’s internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting: 2010-1. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Governing Board  
Educational Service Center of Cuyahoga County

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Service Center in a separate letter dated January 13, 2011.

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

This report is intended solely for the information and use of management, Service Center Board, others within the entity, the Auditor of State's Office, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Cimini & Panichi, Inc.*

Cleveland, Ohio  
January 13, 2011



**Independent Auditors' Report on Compliance With Requirements That Could Have a  
Direct and Material Effect on Each Major Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133**

Governing Board  
Educational Service Center of Cuyahoga County

**Compliance**

We have audited the Educational Service Center of Cuyahoga County's (the "Service Center") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Service Center's major federal programs for the year ended June 30, 2010. The Service Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such 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 Service Center's compliance with those requirements.

As described in items 2010-2 and 2010-3 in the accompanying schedule of findings, the Service Center did not comply with requirements regarding Reporting that are applicable to its Special Education Cluster grants and Subrecipient Monitoring that is applicable to the Nutrition Cluster grant. Compliance with such requirements is necessary, in our opinion, for the Service Center to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Service Center complied, in all material respects, with the compliance each of its major federal programs for the year ended June 30, 2010.

### **Internal Control over Compliance**

Management of the Service 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 Service Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2010-2 and 2010-3 to be material weaknesses.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Service Center as of and for the year ended June 30, 2010, and have issued our report thereon dated January 13, 2011, wherein we noted the Service Center adopted *GASB Statement Nos. 51, 53, 57, and 58* as disclosed in Note 3. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Service Center's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Service Center's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Service Center's responses, and accordingly, we express no opinion on the responses.

Governing Board  
Educational Service Center of Cuyahoga County

This report is intended solely for the information and use of management, Service Center Board, others within the entity, the Auditor of State's Office, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ciuni & Panichi, Inc.*

Cleveland, Ohio  
January 13, 2011

# Educational Service Center of Cuyahoga County

## Schedule of Expenditures of Federal Awards

### For The Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Receipts	Disbursements
U.S. Department of Agriculture:			
Passed-Through Ohio Department of Education:			
Child Nutrition Cluster:			
Federal School Breakfast	10.553	\$ 133,820	\$ 133,820
National School Lunch Program	10.555	<u>228,688</u>	<u>228,688</u>
Total U.S. Department of Agriculture		<u>362,508</u>	<u>362,508</u>
U.S. Department of Education:			
Fund for the Improvement of Education			
Teaching American History	84.215X	<u>656,665</u>	<u>673,051</u>
Passed-Through Ohio Department of Education:			
Title I Cluster:			
Title I-Grants to Local Educational Agencies	84.010	165,965	171,784
ARRA – Title I-Grants to Local Educational Agencies	84.389	<u>3,244</u>	<u>6,684</u>
Total Title I Cluster		<u>169,209</u>	<u>178,468</u>
Special Education Cluster:			
Special Education-Grants to States	84.027	2,705,674	2,822,828
Special Education-Preschool Grants	84.173	41,796	35,983
ARRA – Special Education-Grants to States	84.391	114,675	197,465
ARRA – Special Education-Preschool Grants	84.392	<u>-</u>	<u>4,241</u>
Total Special Education Cluster		<u>2,862,145</u>	<u>3,060,517</u>
Special Education-State Personnel Development	84.323	40,163	40,374
School Improvement Grant	84.377	22,768	22,768
Twenty-First Century Community Learning Centers	84.287	1,667	5,565
Improving Teacher Quality State Grants	84.367	12,000	2,373
English Language Acquisition Grant	84.365	93,307	97,010
Early Learning Initiative	84.UNKNOWN	<u>2,500</u>	<u>2,500</u>
Total U. S. Department of Education		<u>3,860,424</u>	<u>4,082,626</u>
U.S. Department of Health and Human Services:			
Refugee and Entrant Assistance Grant	93.576	<u>32,706</u>	<u>12,260</u>
Total Expenditures of Federal Awards		\$ <u>4,255,638</u>	\$ <u>4,457,394</u>

The accompanying notes are an integral part of this schedule.

# **Educational Service Center of Cuyahoga County**

Notes to the Schedule of Expenditures of Federal Awards

**For The Year Ended June 30, 2010**

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## **Note 1: Significant Accounting Policies**

### ***A – Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Service Center and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal receipts from the U.S. Department of Agriculture are commingled with state grants and local revenues. It is assumed that federal monies are expended first.

CFDA – Catalog of Federal Domestic Assistance

### ***B – Subrecipients***

Certain funds are passed through to subgrantee organizations by the Service Center. Expenditures incurred by the subgrantees and reimbursed by the Service Center are included in the accompanying Schedule.

# Educational Service Center of Cuyahoga County

Schedule of Findings  
OMB Circular A-133, Section .505

**For the Year Ended June 30, 2010**

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## 1. Summary of Auditors' Results

(d)(I)(I)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(I)(iii)	Was there any material noncompliance reported at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Were there any material internal control weakness reported for major federal programs?	Yes
(d)(I)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(I)(vi)	Are there any reportable findings under Section .510(a)?	Yes
(d)(I)(vii)	Major Programs	Special Education Cluster, CFDA #'s 84.027, 84.173, 84.391, and 84.392 Child Nutrition Cluster, CFDA #'s 10.553 and 10.555 Teaching American History, CFDA # 84.215X
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	No

# Educational Service Center of Cuyahoga County

Schedule of Findings (continued)  
OMB Circular A-133, Section .505

**For the Year Ended June 30, 2010**

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## 2. Findings Related to the Financial Statements Required To Be Reported In Accordance With GAGAS

Findings	Findings Summary
2010-1	<p data-bbox="305 594 852 625"><b><i>Financial Reporting – Significant Deficiency</i></b></p> <p data-bbox="305 657 1419 747">Sound financial reporting is the responsibility of the Treasurer and the Service Center Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.</p> <p data-bbox="305 779 1144 810">The following audit adjustments were made to the financial statements:</p> <ol data-bbox="354 842 1291 873" style="list-style-type: none"><li data-bbox="354 842 1291 873">1. Adjusted deferred revenue for amounts received within the available period.</li></ol> <p data-bbox="305 905 1419 995">The lack of controls over the posting of year-end financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data at year-end.</p> <p data-bbox="305 1026 1419 1213">We recommend the Service Center adopts policies and procedures for controls over recording of year-end financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the Service Center and thereby increasing the reliability of the financial data at year-end. Although the Service Center has contracted a third party to perform their GAAP Conversion, the Service Center’s management needs to review the statements to be sure that all items are being properly recorded.</p> <p data-bbox="305 1245 1419 1308"><b>Official’s Response:</b> Management will develop a process to oversee the GAAP conversion process more closely and have better communication with them.</p>

# Educational Service Center of Cuyahoga County

Schedule of Findings (continued)  
OMB Circular A-133, Section .505

**For the Year Ended June 30, 2010**

## 3. Findings for Federal Awards

Findings	Findings Summary
2010-2	<p><b>Reporting – Material Weakness</b></p> <p><b>CFDA Title and Number</b> Special Education – Grants to States, CFDA #84.027 Special Education – Preschool Grants, CFDA #84.173 ARRA–Special Education – Grants to States. CFDA #84.391 ARRA–Special Education – Preschool Grants, CFDA #84.391</p> <p><b>Federal Agency</b> Department of Education <b>Pass-Through Agency</b> Ohio Department of Education</p> <p>Per our review of the final expenditure reports for the Special Education Cluster, we noted the final expenditure reports were not submitted by the deadline as noted in the Grant Agreement. The final expenditure reports were submitted in October 2010.</p> <p>We recommend the Service Center adopt policies and procedures to ensure the final expenditure reports are submitted by the required dates.</p> <p><b>Officials Response:</b></p> <p>Procedures will be implemented to ensure the final expenditure reports are submitted by required dates.</p>
2010-3	<p><b>Subrecipient Monitoring – Material Weakness</b></p> <p><b>CFDA Title and Number</b> Federal School Breakfast, CFDA #10.553 National School Lunch Program, CFDA #10.555</p> <p><b>Federal Agency</b> Department of Agriculture <b>Pass-Through Agency</b> Ohio Department of Education</p> <p>Per our testing performed, we determined that no subrecipient monitoring of the Child Nutrition Cluster is being performed by the Service Center. Although the Service Center is a pass-through entity with the PEP Program as the subrecipient of the federal award, pass-through entities should monitor subrecipients during the grant period to ensure compliance with the applicable federal requirements. This can be done in numerous ways, one of which being to review the subrecipient’s Single Audit reports and evaluate any audit findings.</p> <p>We recommend the Service Center adopt policies and procedures to ensure that subrecipient monitoring is being performed in accordance with the requirements of OMB Circular A-133.</p> <p><b>Official’s Response:</b></p> <p>Procedures will be implemented to ensure that subrecipient monitoring is performed.</p>



## Educational Service Center of Cuyahoga County

Schedule of Prior Year Findings  
OMB Circular A-133, Section .315(b)

### **For the Year Ended June 30, 2010**

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<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain</b>
2009-1	The following audit adjustments were made to the financial statements: Adjusted for understatement of accounts payable and adjusted deferred revenue for amounts received within the available period.	No	Partially corrected – the number of audit adjustments was reduced. See Finding 2010-1.
2009-2	The Service Center overstated the total cash-basis expenditures line item on the project cash requests. The cash requested also exceeded the total expenditures to date plus any encumbrances subsequently liquidated within the requested month.	Yes	Corrected
2009-3	No subrecipient monitoring of the Nutrition Cluster Grant is being performed by the Service Center.	No	Not corrected. See Finding 2010-3.

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# Dave Yost • Auditor of State

CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER

CUYAHOGA COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 22, 2011