

Educational Service Center of Lorain County
Lorain County, Ohio

Single Audit

July 1, 2009 through June 30, 2010
Fiscal Years Audited Under GAGAS: 2010



Balestra, Harr & Scherer, CPAs, Inc.

528 South West St, P.O. Box 687, Piketon, Ohio 45661 Phone: 740.289.4131 Fax: 740.289.3639



Dave Yost • Auditor of State

Board of Education
Lorain County Educational Service Center
1885 Lake Ave
Elyria, Ohio 44035

We have reviewed the *Independent Auditor's Report* of the Lorain County Educational Service Center, Lorain County, prepared by Balestra, Harr & Scherer, CPAs, 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 Lorain County Educational Service Center 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 4, 2011

This Page is Intentionally Left Blank.

**LORAIN COUNTY EDUCATIONAL SERVICE CENTER
LORAIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

TABLE OF CONTENTS

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	15
Notes to the Basic Financial Statements	16
Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget Basis (Non-GAAP) and Actual – General Fund	36
Notes to Supplementary Information	37
Schedule of Receipts and Expenditures of Federal Awards	39
Notes to Schedule of Receipts and Expenditures of Federal Awards.....	40
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	41
Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance Required by OMB Circular A-133.....	43
Schedule of Findings – OMB Circular A-133§.505	45



Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lorain County Educational Service Center, Lorain County, (the Center), as of and for the year ended June 30, 2010, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Lorain County Educational Service Center, Lorain County, Ohio, as of June 30, 2010, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2010, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The supplementary information on page 36 provides additional information and is not a required part of the basic financial statements. The schedule of receipts and expenditures of federal awards on page 39 required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the supplementary information and the schedule of receipts and expenditures of federal awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 3 to the basic financial statements, the Center implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Reporting for Intangible Assets* 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*.



Balestra, Harr & Scherer, CPAs, Inc.
December 4, 2010

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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

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

Financial Highlights

Key Financial Highlights for 2010 are as follows:

- In total, net assets decreased by \$ 107,840.
- Revenues for governmental activities totaled \$10,738,433 in 2010. Of this total, 24.2 percent consisted of general revenues while program revenues accounted for the balance of 75.8 percent.
- Program expenses totaled \$ 10,846,273. Instructional expenses made up 20.4 percent of this total while support services accounted for 79.0 percent. Other expenses rounded out the remaining 0.6 percent.

Using this Annual Financial Report

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2010?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. An accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the Educational Service Center's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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

The Educational Service Center as a Whole

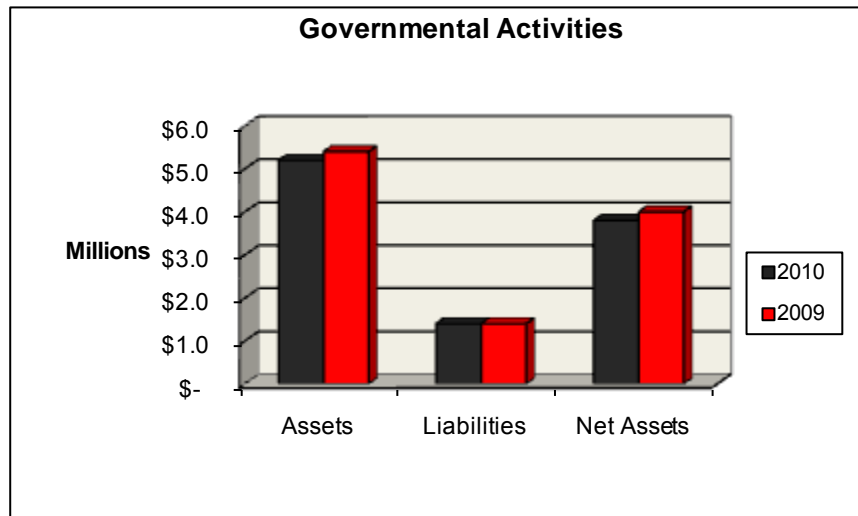
You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2010 compared to 2009:

**Table 1
Net Assets**

	2010	2009
Assets		
Current and other assets	\$ 4,077,836	\$ 4,117,110
Capital assets, net	1,168,037	1,226,761
Total assets	5,245,873	5,343,871
Liabilities		
Current liabilities and other liabilities	882,629	878,056
Long term liabilities		
Due within one year	178,816	204,473
Due in more than one year	346,505	315,578
Total liabilities	1,407,950	1,398,107
Net assets		
Invested in capital assets, net of related debt	1,168,037	1,225,087
Restricted for	87,756	80,363
Unrestricted	2,582,130	2,640,314
Total net assets	\$ 3,837,923	\$ 3,945,764

Total assets decreased by \$ 97,998, with the most significant decrease in equity in pooled cash and cash equivalents of \$ 77,316 and capital assets of \$ 58,724 and offset by an increase in due from other governments of \$ 41,638. Liabilities increased by \$ 9,843, comprised of accrued salaries and benefits and compensated absences with decreases in accounts payable and due to other governments.

By comparing assets and liabilities, one can see that in the Educational Service Center's net assets is \$ 3,837,923 and the entity is financially stable.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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

Table 2 compares the changes in net assets from fiscal year 2010 to fiscal year 2009. A comparative analysis of government-wide data follows.

Table 2
Change in Net Assets

	<u>2010</u>	<u>2009</u>
Revenues		
Program Revenue		
Charges for services and sales	\$ 5,931,854	\$ 5,329,041
Operating grants, interest and contributions	<u>2,209,851</u>	<u>2,494,686</u>
Total program revenue	<u>8,141,705</u>	<u>7,823,727</u>
General revenue		
Grants and entitlements not restricted for specific purposes	2,478,598	2,361,780
Investment earnings	88,208	153,351
Miscellaneous	<u>29,922</u>	<u>151,257</u>
Total general revenues	<u>2,596,728</u>	<u>2,666,388</u>
Total revenues	<u>10,738,433</u>	<u>10,490,115</u>
Program expenses		
Instruction		
Regular	807,003	845,957
Special	1,407,402	1,237,164
Supporting services		
Pupil	1,623,736	1,318,733
Instructional staff	5,025,553	5,038,723
Board of education	34,940	52,344
Administration	726,842	786,646
Fiscal services	335,485	389,933
Business	524,622	421,657
Operation and maintenance	300,538	332,737
Central services	-	4,993
Operation of non-instructional services	47,867	311
Extracurricular activities	12,264	14,371
Interest	<u>21</u>	<u>200</u>
	<u>10,846,273</u>	<u>10,443,769</u>
Change in net assets	<u>\$ (107,840)</u>	<u>\$ 46,346</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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

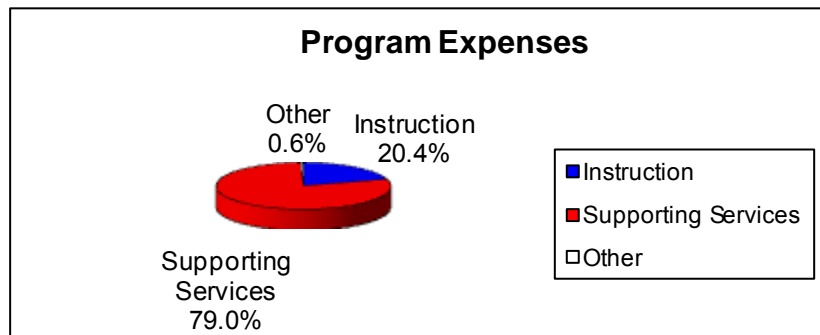
Governmental Activities

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

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The (\$ 2,704,568) Net Cost of Services 2010, tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

Table 3
Net Cost of Services

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Governmental activities				
Instruction				
Regular	\$ 807,003	\$ (127,949)	\$ 845,957	\$ (289,082)
Special	1,407,402	(121,330)	1,237,164	(242,898)
Supporting services				
Pupil	1,623,736	(270,099)	1,318,733	(289,813)
Instructional staff	5,025,553	(202,611)	5,038,723	(948,716)
Board of education	34,940	(34,940)	52,344	(54,251)
Administration	726,842	(726,842)	786,646	(587,824)
Fiscal services	335,485	(335,485)	389,933	(323,531)
Business	524,622	(524,622)	421,657	(489,863)
Operation and maintenance	300,538	(300,538)	332,737	(138,569)
Central services	-	-	4,993	(27,839)
Operation of non-instructional services	47,867	(47,867)	311	(1,229)
Extracurricular activities	12,264	(12,264)	14,371	(3,990)
Interest	21	(21)	200	(399)
Totals	<u>\$ 10,846,273</u>	<u>\$ (2,704,568)</u>	<u>\$ 10,443,769</u>	<u>\$ (3,398,004)</u>



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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

The Educational Service Center's Funds

Information regarding the Educational Service Center's major funds can be found starting on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$ 10,817,943 and expenditures and other financing uses totaled \$ 10,749,452. The most significant fund, the General Fund had a fund balance decrease of \$ 3,545.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the Educational Service Center had \$1,168,037 invested in land, building and improvements, vehicles and furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal year 2010 values compared to 2009.

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

	2010	2009
Land	\$ 227,600	\$ 227,600
Building and improvements	757,007	787,956
Furniture and equipment	165,753	198,511
Vehicles	17,677	12,694
Total capital assets	<u>\$ 1,168,037</u>	<u>\$ 1,226,761</u>

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

Current Financial Related Activities

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

Contacting the Educational Service Center District's Financial Management

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF NET ASSETS

JUNE 30, 2010

	<u>Governmental Activities</u>
Assets	
Equity in pooled cash and cash equivalents	\$ 2,709,986
Due from other governments	1,352,692
Accrued interest receivable	15,158
Capital assets	
Nondepreciable capital assets	227,600
Depreciable capital assets, net	<u>940,437</u>
Total assets	<u>5,245,873</u>
Liabilities	
Accounts and contracts payable	8,933
Accrued salaries, wages and benefits	704,788
Due to other governments	168,908
Long term liabilities	
Due within one year	178,816
Due in more than one year	<u>346,505</u>
Total liabilities	<u>1,407,950</u>
Net assets	
Invested in capital assets, net of related debt	1,168,037
Restricted for other purposes	87,756
Unrestricted	<u>2,582,130</u>
Total net assets	<u>\$ 3,837,923</u>

See the accompanying notes to the Basic Financial Statement.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	
Governmental activities				
Instruction				
Regular	\$ 807,003	\$ 625,670	\$ 53,384	\$ (127,949)
Special	1,407,402	953,211	332,861	(121,330)
Supporting services				
Pupil	1,623,736	1,330,637	23,000	(270,099)
Instructional staff	5,025,553	3,022,336	1,800,606	(202,611)
Board of education	34,940	-	-	(34,940)
Administration	726,842	-	-	(726,842)
Fiscal services	335,485	-	-	(335,485)
Business	524,622	-	-	(524,622)
Operation and maintenance	300,538	-	-	(300,538)
Operation of non-instructional services	47,867	-	-	(47,867)
Extracurricular activities				
Academic	12,264	-	-	(12,264)
Interest	21	-	-	(21)
Totals	<u>\$ 10,846,273</u>	<u>\$ 5,931,854</u>	<u>\$ 2,209,851</u>	<u>(2,704,568)</u>
General revenues				
Grants and entitlements not restricted to specific purposes				2,478,598
Investment earnings				88,208
Miscellaneous				29,922
Total general revenues				<u>2,596,728</u>
Change in net assets				(107,840)
Net assets at beginning of year				<u>3,945,763</u>
Net assets at end of year				<u>\$ 3,837,923</u>

See the accompanying notes to the Basic Financial Statement.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in pooled cash and cash equivalents	\$ 2,613,141	\$ 96,845	\$ 2,709,986
Receivables			
Accrued interest receivable	15,158	-	15,158
Due from other governments	1,081,305	271,387	1,352,692
Interfund receivable	110,174	-	110,174
Total assets	<u>\$ 3,819,778</u>	<u>\$ 368,232</u>	<u>\$ 4,188,010</u>
Liabilities and fund balances			
Liabilities			
Accounts and contracts payable	\$ 6,166	\$ 2,767	\$ 8,933
Accrued wages and benefits	645,348	59,440	704,788
Due to other governments	155,947	12,961	168,908
Interfund payable	-	110,174	110,174
Compensated absences payable	4,528	-	4,528
Total liabilities	<u>811,989</u>	<u>185,342</u>	<u>997,331</u>
Fund balances			
Reserved for encumbrances	377,690	46,094	423,784
Unreserved, reported in			
General Fund	2,630,099	-	2,630,099
Special Revenue Funds	-	136,796	136,796
Total fund balances	<u>3,007,789</u>	<u>182,890</u>	<u>3,190,679</u>
Total liabilities and fund balances	<u>\$ 3,819,778</u>	<u>\$ 368,232</u>	<u>\$ 4,188,010</u>

See the accompanying notes to the Basic Financial Statement.

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

JUNE 30, 2010

Total governmental funds balances	\$ 3,190,679
Amount reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	1,168,037
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	<u>(520,793)</u>
Net assets of governmental activities	<u>\$ 3,837,923</u>

See the accompanying notes to the Basic Financial Statement.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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

FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Tuition and fees	\$ 4,280,148	\$ 4,322	\$ 4,284,470
Interest	88,208	-	88,208
Intergovernmental	2,620,595	2,067,854	4,688,449
Charges for services	1,688,022	19,289	1,707,311
Other	2,280	47,225	49,505
Total revenues	8,679,253	2,138,690	10,817,943
Expenditures			
Current			
Instruction			
Regular	729,434	65,191	794,625
Special	1,111,534	290,934	1,402,468
Supporting services			
Pupil	1,556,455	48,017	1,604,472
Instructional staff	3,527,061	1,491,753	5,018,814
Board of education	34,940	-	34,940
Administration	649,463	59,720	709,183
Fiscal services	308,713	41,700	350,413
Business	501,019	-	501,019
Operation and maintenance	258,155	-	258,155
Operation of non-instructional			
Community services	-	47,867	47,867
Extracurricular activities	-	12,264	12,264
Capital outlay	4,329	9,208	13,537
Debt service			
Principal	1,674	-	1,674
Interest	21	-	21
Total expenditures	8,682,798	2,066,654	10,749,452
Net change in fund balances	(3,545)	72,036	68,491
Fund balances, beginning of year	3,011,334	110,854	3,122,188
Fund balances, end of year	\$ 3,007,789	\$ 182,890	\$ 3,190,679

See the accompanying notes to the Basic Financial Statement.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net change in fund balance - total governmental funds	\$	68,491
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital outlay	108,485	
Depreciation expense	<u>(167,209)</u>	
Total		(58,724)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(79,510)
The issuance of long-term debt (e.g. leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		1,674
Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		<u>(39,771)</u>
Change in net assets of governmental activities	\$	<u><u>(107,840)</u></u>

See the accompanying notes to the Basic Financial Statement.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

JUNE 30, 2010

	<u>Agency Funds</u>
Assets	
Equity in pooled cash and cash equivalents	\$ 2,986,544
Cash and cash equivalents in segregated accounts	11,119,163
Interest receivable	4,647
Accounts receivable	18,277
Due from other governments	<u>3,012</u>
Total assets	<u><u>14,131,643</u></u>
Liabilities	
Accounts payable	47,245
Accrued wages and benefits	46,754
Due to other governments	8,016
Due to others	13,874,492
Noncurrent liabilities:	
Due within one year	97,077
Due in over one year	<u>58,059</u>
Total liabilities	<u><u>\$ 14,131,643</u></u>

See the accompanying notes to the Basic Financial Statement.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's facility and staff who provide services to 29,860 students in local, city and exempted village school districts in Lorain County.

REPORTING ENTITY

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

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

The Educational Service Center is associated with certain organizations which are defined as a jointly governed organization. These organizations are presented in Note 7 to the basic financial statements. These organizations are the Lake Erie Educational Computer Association (LEECA), the Lake Erie Regional Council of Governments (LERC) and the Ohio Department of Education's School Support Team Region 2.

B. BASIS OF PRESENTATION

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION (continued)

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

C. FUND ACCOUNTING

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

Governmental Funds

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING (continued)

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

Fiduciary Fund Type

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. MEASUREMENT FOCUS

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

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

E. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: grants, investment earnings, tuition, customer services and charges for services, rentals and fees.

Deferred Revenue

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

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

Expenditures/Expenses

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

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

F. CASH AND INVESTMENTS

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

During fiscal year 2010, investments were limited to certificates of deposit, STAR Ohio (the State Treasurer's Investment Pool), treasury notes, and federal agency securities. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS (continued)

The Educational Service Center has invested funds in the STAR Ohio during fiscal year 2010. 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.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2010, the General Fund and LEECA received \$ 88,208 and \$ 41,955 in interest income, respectively.

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

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2010, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. At June 30, 2010, the Educational Service Center did not have any prepaids.

H. CAPITAL ASSETS

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District's capitalization threshold is \$2,400. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. INTERFUND BALANCES

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

J. COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means

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

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

K. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

L. INTERFUND TRANSACTIONS

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The government-wide statement of net assets reports \$ 53,118 is restricted by enabling legislation.

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

N. FUND BALANCE RESERVES

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

O. 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.

P. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2010.

NOTE 2 - DEFICIT FUND BALANCE

At June 30, 2010, the following non-major funds had deficit fund balances; the Public Preschool Fund of \$ 9,106, and the Miscellaneous Federal Grants Fund of \$1,661. The General Fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2010, the Educational Service Center has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, "Accounting and Reporting for Intangible Assets", 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 Educational 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 Educational 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 Educational Service Center's financial statements.

NOTE 4 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

B. DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the Educational Service Center's deposits may not be returned. The Educational Service Center does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$5,180,454 and the bank balance was \$ 5,397,497. Of the bank balance, \$ 5,266,821 was covered by federal depository insurance and \$ 130,676 was collateralized with securities held by the pledging institution's trust department not in the Educational Service Center's name.

C. INVESTMENTS

As of June 30, 2010, the Educational Service Center had the following investments and maturities:

Investment Type	Fair Value	1 Year or less	2 Years	3 Years	4 Years	5 Years
StarOhio	\$ 771,569	\$ 771,569	\$ -	\$ -	\$ -	\$ -
Money Markets	211,677	211,677	-	-	-	-
US Treasury	149,719	149,719	-	-	-	-
FHLB	1,552,142	399,964	201,645	150,000	600,533	200,000
FHLMC	3,050,842	-	800,400	1,150,442	700,000	400,000
FNMA	3,021,000	-	-	1,100,000	100,000	1,821,000
FFCB	807,705	303,765	-	303,940	-	200,000
FHLB Discount Note	249,652	249,652	-	-	-	-
FHLMC Discount Note	424,167	424,167	-	-	-	-
Freddie Mac Discount Note	523,486	523,486	-	-	-	-
Fannie Mae Discount Note	349,223	349,223	-	-	-	-
FFCB Discount Note	149,797	149,797	-	-	-	-
FNMA Discount Note	374,260	374,260	-	-	-	-
	<u>\$ 11,635,239</u>	<u>\$ 3,907,279</u>	<u>\$ 1,002,045</u>	<u>\$ 2,704,382</u>	<u>\$ 1,400,533</u>	<u>\$ 2,621,000</u>

D. INTEREST RATE RISK

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

E. CREDIT RISK

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

F. CONCENTRATION OF CREDIT RISK

The Educational Service Center's places no limit on the amount that may be invested to any one issuer. The following table includes the percentage of total of each investment type held by the Educational Service Center at June 30, 2010:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
StarOhio	\$ 771,569	6.63%
Money Markets	211,677	1.81%
US Treasury	149,719	1.29%
FHLB	1,552,142	13.34%
FHLMC	3,050,842	26.22%
FNMA	3,021,000	25.96%
FFCB	807,705	6.94%
FHLB Discount Note	249,652	2.15%
FHLMC Discount Note	424,167	3.65%
Freddie Mac Discount Note	523,486	4.50%
Fannie Mae Discount Note	349,223	3.00%
FFCB Discount Note	149,797	1.29%
FNMA Discount Note	374,260	3.22%
	<u>\$ 11,635,239</u>	<u>100.00%</u>

NOTE 5 - RECEIVABLES

Receivables at June 30, 2010, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds and all receivables will be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental activities:</u>	<u>Amount</u>
Major funds	
General fund	\$ 1,081,305
Non-major funds	
Preschool	6,318
IDEA	158,537
Title I	9,603
Miscellaneous state grants	96,929
Total due from other governments	<u>\$ 1,352,692</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 6 - STATE FUNDING

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$37.00 for each of the 29,860 students who are provided services. In addition to the \$37.00, the Educational Service Center receives \$6.50 per pupil from school districts served and a prorated supervisory cost to the Educational Service Center. These payments are received through the State's foundation program. The Educational Service Center also receives unit funding from the State Department of Education to partially fund its pre-school special education program and the gifted and talented program.

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

NOTE 7 - JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATIONAL COMPUTER ASSOCIATION (LEECA)

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

B. LAKE ERIE REGIONAL COUNCIL (LERC)

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 7 - JOINTLY GOVERNED ORGANIZATIONS (continued)

C. STATE SUPPORT TEAM

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

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity during fiscal year 2010 is as follows:

Governmental Activities	Balance June 30, 2009	Additions	Disposals	Balance June 30, 2010
Nondepreciable capital assets				
Land	\$ 227,600	\$ -	\$ -	\$ 227,600
Depreciable capital assets				
Buildings and improvements	1,120,607	2,786	-	1,123,393
Furniture, fixtures and equipment	546,990	96,005	-	642,995
Vehicles	21,763	9,694	-	31,457
Total capital assets being depreciated	<u>1,689,360</u>	<u>108,485</u>	<u>-</u>	<u>1,797,845</u>
Less accumulated depreciation				
Buildings and improvements	(332,651)	(33,735)	-	(366,386)
Furniture, fixtures and equipment	(348,479)	(128,763)	-	(477,242)
Vehicles	(9,069)	(4,711)	-	(13,780)
Total accumulated depreciation	<u>(690,199)</u>	<u>(167,209)</u>	<u>-</u>	<u>(857,408)</u>
Depreciable capital assets, net of accumulated depreciation	<u>999,161</u>	<u>(58,724)</u>	<u>-</u>	<u>940,437</u>
Governmental activities capital assets, net	<u>\$ 1,226,761</u>	<u>\$ (58,724)</u>	<u>\$ -</u>	<u>\$ 1,168,037</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 8 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$ 6,700
Special	1,231
Supporting services	
Pupils	650
Instructional staff	93,026
Administration	6,863
Fiscal	177
Business	17,563
Operations and maintenance	40,999
Total depreciation expense	<u>\$ 167,209</u>

NOTE 9 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the Educational Service Center contracted with Netherlands Insurance Company for general liability insurance. Leased vehicles are covered by Netherlands Insurance Company and have a \$50 deductible for comprehensive and a \$250 deductible for collision and \$250 deductible for other than collision. The vehicle liability insurance is on an occurrence basis with a \$1,000,000 combined single limit. Claims have never exceeded this coverage in any of the past three years. There has been no significant reduction in coverage from the prior year. Professional liability is protected by the Netherlands Insurance Company with a \$5,000,000 annual aggregate/\$5,000,000 single occurrence limit and a \$10,000 deductible.

For fiscal year 2010, the Educational Service Center participated in the Sheakley Workers' Compensation Group rating Program. The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. Sheakley Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 10 - DEFINED BENEFIT PENSION PLAN

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of an annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For Fiscal year ending June 30, 2010, the allocation to pension and death benefits is 12.78%. The remaining 1.22% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's contribution to SERS for the years ended June 30, 2010, 2009, and 2008 were \$ 389,292, \$ 362,305, and \$ 363,869, respectively; 100 percent has been contributed for all three fiscal years.

B. STATE TEACHERS RETIREMENT SYSTEM

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 10 - DEFINED BENEFIT PENSION PLAN (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (continued)

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

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

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$ 661,970, \$ 637,999, and \$ 571,946 respectively; 100 percent has been contributed for all three fiscal years.

C. SOCIAL SECURITY SYSTEM

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

NOTE 11 - POST EMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM

Postemployment Benefits

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

Medicare Part B Plan

The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$ 96.40, SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2010, the actuarially required allocation is .76%. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$21,133, \$ 19,409, and \$ 17,154, respectively; 100 percent has been contributed for all three fiscal years.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 11 - POST EMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM (continued)

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2010, the health care allocation is 0.46%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$12,791, \$ 107,656, and \$ 108,641, respectively; 100 percent has been contributed for all three fiscal years.

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

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

B. STATE TEACHERS RETIREMENT SYSTEM

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 11 - POST EMPLOYMENT BENEFITS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (continued)

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 School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$ 50,920, \$ 49,077, and \$ 43,996, respectively; 100 percent has been contributed for all three fiscal years.

NOTE 12 - EMPLOYEE BENEFITS

A. COMPENSATED ABSENCES

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

B. LIFE INSURANCE

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

NOTE 13 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during fiscal year 2010 are as follows:

	Balance June 30, 2009	Increase	Decrease	Balance June 30, 2010	Amounts Due In One Year
Capital lease	\$ 1,674	\$ -	\$ 1,674	\$ -	\$ -
Compensated absences	518,377	34,562	27,618	525,321	178,816
	<u>\$ 520,051</u>	<u>\$ 34,562</u>	<u>\$ 29,292</u>	<u>\$ 525,321</u>	<u>\$ 178,816</u>

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 14 - OPERATING LEASE

The Educational Service Center is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreement is not reflected in the Educational Service Center's general long-term debt account group. During 2010, expenditures for the operating lease totaled \$ 12,072.

Year ending June 30,	Amount
2011	\$ 12,072
2012	12,072
2013	12,072
2014	10,060
	<u>\$ 46,276</u>

NOTE 15 - CONTINGENCIES

A. GRANTS

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2010.

B. LITIGATION

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

NOTE 17 - INTERFUND ACTIVITIES

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

	Interfund Receivable	Interfund Payable
Major Fund:		
General Fund	\$ 110,174	\$ -
Non-major Funds:		
Miscellaneous State Grants	-	87,744
IDEA	-	19,500
Title I	-	900
Miscellaneous Federal Grants	-	1,700
ECSE Preschool	-	330
Total Non-major Funds	-	110,174
	<u>\$ 110,174</u>	<u>\$ 110,174</u>

SUPPLEMENTARY INFORMATION

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues and other financing sources	\$ 7,911,160	\$ 8,870,748	\$ 8,871,311	\$ 563
Expenditures and other financing uses	8,161,362	9,662,005	9,278,149	383,856
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(250,202)	(791,257)	(406,838)	384,419
Fund balances, beginning of year	2,246,370	2,246,370	2,246,370	-
Prior year encumbrances	389,754	389,754	389,754	-
Fund balances, end of year	<u>\$ 2,385,922</u>	<u>\$ 1,844,867</u>	<u>\$ 2,229,286</u>	<u>\$ 384,419</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1 - BUDGETARY DATA

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis statements are the following:

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2010

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

<u>Net Change in Fund Balance</u>	
	<u>General Fund</u>
Budget basis	\$ (406,838)
Adjustments, increase (decrease)	
Revenue accruals	(192,058)
Expenditure accruals	<u>595,351</u>
GAAP basis, as reported	<u>\$ (3,545)</u>

LORAIN COUNTY EDUCATIONAL SERVICE CENTER
LORAIN COUNTY, OHIO

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass Through Grantor/ Program Title		Pass Through Federal Entity Number	CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION					
Title I, Part A Cluster:					
Title I Grants to Local Educational Agencies	2010	84.010		\$128,818	\$128,558
Total Title I Grants to Local Educational Agencies				<u>128,818</u>	<u>128,558</u>
Title I Grants to Local Educational Agencies, Recovery Act	2010	84.389		56,144	55,356
Total Title I Grants to Local Educational Agencies, Recovery Act				<u>56,144</u>	<u>55,356</u>
Total Title I, Part A Cluster				<u>184,962</u>	<u>183,914</u>
Special Education Cluster:					
Special Education Grants to States	2009	84.027		195,074	37,436
Special Education Grants to States	2010	84.027		921,621	984,825
Total Special Education Grants to States				<u>1,116,695</u>	<u>1,022,261</u>
Special Education Preschool Grants	2009	84.173		12,369	10,598
Special Education Preschool Grants	2010	84.173		67,988	60,285
Total Special Education Preschool Grants				<u>80,357</u>	<u>70,883</u>
Special Education - Preschool Grants, Recovery Act	2010	84.392		62,998	63,326
Total Special Education - Preschool Grants, Recovery Act				<u>62,998</u>	<u>63,326</u>
Total Special Education Cluster				<u>1,260,050</u>	<u>1,156,470</u>
Education for Homeless Children and Youth Cluster:					
Education for Homeless Children and Youth	2009	84.196		-	350
Education for Homeless Children and Youth	2010	84.196		28,175	35,029
Total Education for Homeless Children and Youth				<u>28,175</u>	<u>35,379</u>
Education for Homeless Children and Youth, Recovery Act	2010	84.387		70,827	60,090
Total Education for Homeless Children and Youth, Recovery Act				<u>70,827</u>	<u>60,090</u>
Total Education for Homeless Children and Youth Cluster				<u>99,002</u>	<u>95,469</u>
Special Education - State Personnel Development	2010	84.323		35,257	36,918
Total Special Education - State Personnel Development				<u>35,257</u>	<u>36,918</u>
English Language Acquisition Grants	2009	84.365		12,696	9,752
Total English Language Acquisition Grants				<u>12,696</u>	<u>9,752</u>
Total U.S. Department of Education				<u>1,591,967</u>	<u>1,482,523</u>
U.S. DEPARTMENT OF HEALTH AND HUMANS SERVICES PASSED THROUGH OHIO DEPARTMENT OF JOB AND FAMILY SERVICES					
Temporary Assistance for Needy Families	2010	93.558		2,500	2,500
Total Temporary Assistance for Needy Families				<u>2,500</u>	<u>2,500</u>
Total U. S. Department of Health and Services				<u>2,500</u>	<u>2,500</u>
Total Federal Financial Assistance				<u>\$ 1,594,467</u>	<u>\$ 1,485,023</u>

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

**LORAIN COUNTY EDUCATIONAL SERVICE CENTER
LORAIN COUNTY**

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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



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

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

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lorain County Educational Service Center, Lorain County, (the Center) as of and for the year ended June 30, 2010 which collectively comprise the Center's basic financial statements and have issued our report thereon dated December 4, 2010, wherein we noted the Center implemented GASB Statements No. 51, 57 and 58. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Members of the Board

Lorain County Educational Service Center

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

Page 2

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

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

Balestra, Harr & Scherer, CPAs, Inc.

December 4, 2010



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

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

Compliance

We have audited the compliance of Lorain County Educational Service Center, Lorain County, (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could directly and materially affect each of Lorain County Educational Service Center's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to its major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Lorain County Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

Board of Education

Lorain County Educational Service Center

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

Page 2

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

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

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

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

Balestra, Harr & Scherer, CPAs, Inc.
December 4, 2010

**LORAIN COUNTY EDUCATIONAL SERVICE CENTER
LORAIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2010**

SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster, CFDA #84.027, Special Education – Grants to States; CFDA #84.391, Special Education - Recovery Act
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**LORAIN COUNTY EDUCATIONAL SERVICE CENTER
LORAIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2010**

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

This Page is Intentionally Left Blank.



Dave Yost • Auditor of State

LORAIN COUNTY EDUCATIONAL SERVICE CENTER

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 17, 2011