



**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2012 & 2011



Dave Yost • Auditor of State

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

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GEAUGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Geauga County Educational Service Center
Geauga County
470 Center Street, Building #2
Chardon, Ohio 44024

To the Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Geauga County Educational Service Center, Geauga County, Ohio (the Service Center), as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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, the major fund, and the aggregate remaining fund information of Geauga County Educational Service Center, Geauga County, Ohio, as of June 30, 2012, and 2011 and the respective changes in financial position, thereof and budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during 2011 the Service Center adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Dave Yost
Auditor of State

February 8, 2013

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The discussion and analysis of Geauga County Educational Service Center'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, 2012. 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 2012 are as follows:

- A presentation of financial information under Governmental Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments".
- In total, net assets increased by \$132,170.
- Revenues for governmental activities totaled \$11,733,973 in 2012. Of this total, 9 percent consisted of General revenues while Program revenues accounted for the balance of 91 percent.
- Program expenses totaled \$11,601,803. Instructional expenses made up 34 percent of this total while support services accounted for 66 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 Geauga County 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 County Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of Geauga County Educational Service Center, the general fund by far is the most significant fund.

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 County 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 2012?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

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.

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 and support services.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund 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 fund is the general 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.

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 2012 compared to 2011:

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 1
Net Assets

	<i>Governmental Activities</i>	
	<i>2012</i>	<i>2011</i>
Assets		
Current and Other Assets	\$2,434,160	\$2,165,890
Capital Assets, Net	27,568	36,923
<i>Total Assets</i>	2,461,728	2,202,813
Liabilities		
Current and Other Liabilities	1,103,373	1,081,962
Long-Term Liabilities		
Due Within One Year	38,917	21,532
Due in More than One Year	298,621	210,672
<i>Total Liabilities</i>	1,440,911	1,314,166
Net Assets		
Invested in Capital Assets, Net of Debt	27,568	36,923
Restricted for Other Purposes	71,206	11,607
Unrestricted	922,043	840,117
<i>Total Net Assets</i>	\$1,020,817	\$888,647

Total assets increased by \$258,915. Current and Other Assets increased by \$268,270. The increase is attributed to an increase in cash and cash equivalents. Liabilities increased by \$126,745 mostly as a result of a increase in accrued wages and the benefits payable and compensated absences.

By comparing assets and liabilities, one can see the overall position of the Educational Service Center remains stable as evidenced by the minimal increase in net assets.

Table 2 shows the changes in net assets from fiscal year 2012 to fiscal year 2011. A comparative analysis of government-wide data is presented below:

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2
Changes in Net Assets

	<i>Governmental Activities 2012</i>	<i>Governmental Activities 2011</i>
Revenues		
Program Revenues:		
Charges for Services and Sales	\$10,256,119	\$10,041,200
Operating Grants and Contributions	457,096	253,817
<i>Total Program Revenues</i>	<u>10,713,215</u>	<u>10,295,017</u>
General Revenues:		
Grants and Entitlements	970,134	895,307
Investments	6,447	3,555
Miscellaneous	44,177	36,792
<i>Total General Revenues</i>	<u>1,020,758</u>	<u>935,654</u>
<i>Total Revenues</i>	<u>11,733,973</u>	<u>11,230,671</u>
Program Expenses		
Instruction		
Regular	158,581	158,644
Special	3,502,260	3,170,085
Vocational	307,339	262,354
Adult/Continuing	16,718	3,450
Support Services:		
Pupil	3,770,680	3,540,186
Instructional Staff	2,023,286	2,111,878
Board of Education	36,650	26,420
Administration	1,260,024	1,309,390
Fiscal	263,709	251,457
Business	22,608	24,283
Operation and Maintenance	92,558	90,257
Pupil Transportation	3,588	3,912
Central	143,802	198,611
<i>Total Program Expenses</i>	<u>11,601,803</u>	<u>11,150,927</u>
Increase in Net Assets	132,170	79,744
<i>Net Assets Beginning of Year</i>	<u>888,647</u>	<u>808,903</u>
<i>Net Assets End of Year</i>	<u>\$1,020,817</u>	<u>\$888,647</u>

Governmental Activities

Table 2 compares 2012 revenues and expenses to 2011. During the year, the Educational Service Center collected significantly more charges for service and sales revenue and grants as compared to fiscal year 2011. This increased collection can be attributed to additional revenues generated due to staff development services offered to participating districts and additional pupil support services offered to participating districts. Expenditures also increased significantly due to the additional pupil and staff support offered to the participating districts.

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

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 \$888,588 Net Cost of Services for 2012, tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

	<i>Total Cost of Services 2012</i>	<i>Net Cost of Services 2012</i>	<i>Total Cost of Services 2011</i>	<i>Net Cost of Services 2011</i>
Instruction:				
Regular	\$158,581	\$23,950	\$158,644	\$17,036
Special	3,502,260	236,752	3,170,085	225,328
Vocational	307,339	17,021	262,354	20,961
Adult/Continuing	16,718	228	3,450	275
Support Services:				
Pupil	3,770,680	323,113	3,540,186	278,475
Instructional Staff	2,023,286	107,024	2,111,878	171,888
Board of Education	36,650	2,030	26,420	2,111
Administration	1,260,024	119,497	1,309,390	98,675
Fiscal	263,709	37,024	251,457	13,816
Business	22,608	1,536	24,283	2,166
Operation and Maintenance of Plant	92,558	5,126	90,257	7,211
Pupil Transportation	3,588	(126,860)	3,912	2,577
Central	143,802	142,147	198,611	15,391
<i>Total</i>	<u>\$11,601,803</u>	<u>\$888,588</u>	<u>\$11,150,927</u>	<u>\$855,910</u>

The Educational Service Center's Funds

Information regarding the Educational Service Center's major fund can be found on page 19 & 20 of the notes to the basic financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,672,027 and expenditures of \$11,487,114. The General Fund balance increased \$125,314.

General Fund Budgeting Highlights

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

During the course of fiscal 2012, the Educational Service Center amended its general fund budget significantly. Many of the amendments were due to changes made in service programs offered to the participating districts; such as additional pupil support services and staff development services. The general fund is often called upon to advance funds to one project or another. During the course of the fiscal year federal and state grants will be awarded or material changes in existing grants will require a budgetary modification.

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

For the general fund, the original budget basis revenue estimate totaled \$10,675,212 compared to the final budget basis revenue estimate of \$11,142,976. The increase can be attributed to increased collection from customer sales and services revenues. The final budget basis expenditures estimate totaled \$11,351,318 compared to original estimates of \$9,953,774; changes were made to pay for increased services provided to local school districts for special education services, support services for pupils and staff during the fiscal year.

Capital Assets

At the end of fiscal 2012, the Educational Service Center had \$27,568 invested in furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal 2012 values compared to 2011.

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

	<i>Governmental Activities</i>	
	<i>2012</i>	<i>2011</i>
Furniture and Fixtures	\$191,002	\$193,582
Accumulated Depreciation	(163,434)	(156,659)
<i>Totals</i>	\$27,568	\$36,923

All capital assets are reported at historical cost. For more information on capital assets refer to Note 10 of the basic financial statements.

Current Financial Related Activities

Geauga County Educational Service Center is financially sound. The Board and administration closely monitor 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'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 Lorri Petersen, Treasurer, at Geauga County Educational Service Center, 470 Center St. Bldg 2, Chardon, Ohio 44024-1068 or call 440-285-2222.

Geauga County Educational Service Center

Statement of Net Assets

June 30, 2012

	<i>Governmental Activities</i>
<i>Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$2,121,092
Intergovernmental Receivable	313,068
Depreciable Capital Assets, net	27,568
<i>Total Assets</i>	2,461,728
<i>Liabilities</i>	
Accounts Payable	6,214
Accrued Wages and Benefits	898,447
Intergovernmental Payable	198,712
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	38,917
Due in More Than One Year	298,621
<i>Total Liabilities</i>	1,440,911
<i>Net Assets</i>	
Invested in Capital Assets, Net of Related Debt	27,568
Restricted for Other Purposes	71,206
Unrestricted	922,043
<i>Total Net Assets</i>	\$1,020,817

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2012

	<i>Program Revenues</i>		<i>Net (Expense) Revenue and Changes in Net Assets</i>
<i>Expenses</i>	<i>Charges for Services and Sales</i>	<i>Operating Grants and Contributions</i>	<i>Governmental Activities</i>
<i>Governmental Activities</i>			
Instruction:			
Regular	\$158,581	\$130,878	\$3,753
Special	3,502,260	3,163,178	102,330
Vocational	307,339	290,318	0
Adult/Continuing	16,718	3,887	12,603
Support Services:			
Pupils	3,770,680	3,411,438	36,129
Instructional Staff	2,023,286	1,842,683	73,579
Board of Education	36,650	34,620	0
Administration	1,260,024	912,525	228,002
Fiscal	263,709	225,985	700
Business	22,608	21,072	0
Operation and Maintenance of Plant	92,558	87,432	0
Pupil Transportation	3,588	130,448	0
Central	143,802	1,655	0
<i>Totals</i>	\$11,601,803	\$10,256,119	\$457,096
<i>General Revenues</i>			
Grants and Entitlements not Restricted to Specific Programs			970,134
Miscellaneous			44,177
Investment Earnings			6,447
<i>Total General Revenues</i>			1,020,758
<i>Change in Net Assets</i>			132,170
<i>Net Assets Beginning of Year</i>			888,647
<i>Net Assets End of Year</i>			\$1,020,817

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2012

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<i>Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$2,077,353	\$43,739	\$2,121,092
Interfund Receivable	4,275	0	4,275
Intergovernmental Receivable	280,871	32,197	313,068
<i>Total Assets</i>	<i>\$2,362,499</i>	<i>\$75,936</i>	<i>\$2,438,435</i>
 <i>Liabilities</i>			
Accounts Payable	\$5,759	\$455	\$6,214
Accrued Wages and Benefits	898,447	0	898,447
Intergovernmental Payable	198,712	0	198,712
Interfund Payable	0	4,275	4,275
Deferred Revenue	61,946	0	61,946
<i>Total Liabilities</i>	<i>1,164,864</i>	<i>4,730</i>	<i>1,169,594</i>
 <i>Fund Balances</i>			
Restricted	0	69,720	69,720
Assigned	8,565	1,486	10,051
Unassigned	1,189,070	0	1,189,070
<i>Total Fund Balances</i>	<i>1,197,635</i>	<i>71,206</i>	<i>1,268,841</i>
<i>Total Liabilities and Fund Balances</i>	<i>\$2,362,499</i>	<i>\$75,936</i>	<i>\$2,438,435</i>

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2012*

Total Governmental Fund Balances \$1,268,841

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

Intergovernmental assets are not available to pay for current-period
expenditures and therefore are deferred in the funds. 61,946

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 27,568

Long-term compensated absences liabilities are not due and
payable in the current period and therefore are not reported
in the funds. (337,538)

Net Assets of Governmental Activities \$1,020,817

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Customer Sales and Services	\$7,883,217	\$49,365	\$7,932,582
Intergovernmental	970,134	407,730	1,377,864
Tuition and Fees	2,310,956	0	2,310,956
Interest	6,447	0	6,447
Miscellaneous	44,178	0	44,178
<i>Total Revenues</i>	<u>11,214,932</u>	<u>457,095</u>	<u>11,672,027</u>
Expenditures			
Current:			
Instruction:			
Regular	138,551	4,002	142,553
Special	3,380,268	101,818	3,482,086
Vocational	307,339	0	307,339
Adult/Continuing	4,114	12,604	16,718
Support Services:			
Pupils	3,701,254	36,908	3,738,162
Instructional Staff	1,970,555	41,770	2,012,325
Board of Education	36,650	0	36,650
Administration	1,047,782	199,694	1,247,476
Fiscal	248,392	700	249,092
Business	22,307	0	22,307
Operation and Maintenance of Plant	92,558	0	92,558
Pupil Transportation	1,752	0	1,752
Central	138,096	0	138,096
<i>Total Expenditures</i>	<u>11,089,618</u>	<u>397,496</u>	<u>11,487,114</u>
<i>Excess of Revenues Over Expenditures</i>	125,314	59,599	184,913
<i>Fund Balances Beginning of Year</i>	<u>1,072,321</u>	<u>11,607</u>	<u>1,083,928</u>
<i>Fund Balances End of Year</i>	<u><u>\$1,197,635</u></u>	<u><u>\$71,206</u></u>	<u><u>\$1,268,841</u></u>

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds \$184,913

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

Intergovernmental revenues in the statement of activities that do not 61,946
provide current financial resources are not reported as revenues in the funds.

Governmental funds report capital outlay as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. In the current period, these amounts are:

Capital Assets - Additions	1,306	
Depreciation	(10,661)	
	(10,661)	
Total		(9,355)

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

Compensated Absences	(105,334)	
Total		(105,334)

Changes in Net Assets of Governmental Activities \$132,170

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Over/(Under)
	Original	Final	Actual	
Revenues				
Customer Sales and Services	\$7,161,958	\$7,813,236	\$7,813,236	\$0
Intergovernmental	835,354	967,789	967,789	0
Tuition and Fees	2,645,300	2,311,326	2,310,956	(370)
Interest	5,000	6,447	6,447	0
Miscellaneous	27,600	44,178	44,178	0
Total Revenues	10,675,212	11,142,976	11,142,606	(370)
Expenditures				
Current:				
Instruction:				
Regular	122,086	142,354	137,658	4,696
Special	3,003,495	3,427,980	3,336,794	91,186
Vocational	244,590	303,891	301,616	2,275
Adult/Continuing	1,512	4,114	4,114	0
Support Services:				
Pupils	3,230,401	3,738,110	3,711,237	26,873
Instructional Staff	1,761,974	2,071,551	1,990,514	81,037
Board of Education	25,735	40,114	36,650	3,464
Administration	1,143,204	1,086,457	1,057,039	29,418
Fiscal	238,451	254,115	248,341	5,774
Business	22,500	22,500	20,501	1,999
Operation and Maintenance of Plant	61,500	98,789	90,682	8,107
Transportation	1,400	1,745	1,740	5
Central	96,926	159,598	140,537	19,061
Total Expenditures	9,953,774	11,351,318	11,077,423	273,895
Excess of Revenues Over (Under) Expenditures	721,438	(208,342)	65,183	273,525
Other Financing Uses				
Advances Out	0	(4,216)	(4,275)	(59)
Total Other Financing Uses	0	(4,216)	(4,275)	(59)
Net Change in Fund Balance	721,438	(212,558)	60,908	273,466
Fund Balance Beginning of Year	2,003,361	2,003,361	2,003,361	0
Prior Year Encumbrances Appropriated	3,425	3,425	3,425	0
Fund Balance End of Year	\$2,728,224	\$1,794,228	\$2,067,694	\$273,466

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2012

	<u><i>Investment Trust</i></u>
<i>Assets</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,282,977</u>
<i>Total Assets</i>	<u><u>\$2,282,977</u></u>
<i>Net Assets</i>	
Held in Trust for Pool Participants	<u>\$2,282,977</u>
<i>Total Net Assets</i>	<u><u>\$2,282,977</u></u>

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year June 30, 2012

	<i>Investment Trust</i>
<i>Additions</i>	
Interest	\$6,424
<i>Deductions</i>	
Distributions to Participants	(6,424)
Capital Transactions	439,239
<i>Total Deductions</i>	432,815
<i>Change in Net Assets</i>	439,239
<i>Net Assets Beginning of Year</i>	1,843,738
<i>Net Assets End of Year</i>	\$2,282,977

See Accompanying Notes to the Basic Financial Statements

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Geauga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 1 - Description of the Educational Service Center

The Geauga County Schools' Educational Service Center (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 1, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological, and other needed services to local school districts in Geauga County.

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 instructional/support facilities staffed by 92 noncertificated, 99 certificated staff that provides services to 12,000 students through the school districts in Geauga County.

Reporting Entity

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

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

The Educational Service Center is associated with certain organizations which are defined as jointly governed organizations and an insurance purchasing pool. These organizations are presented in note 9 to the basic financial statements. These organizations include the Lake-Geauga Computer Association and the Ohio School Boards Association Workers Compensation Group Rating Program.

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Educational Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its governmental activities unless those pronouncements conflict with or contradict GASB - pronouncements. Explanation of the Educational Service Center's more significant policies follow.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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.

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 an investment trust fund which is used to account for the activity of the external investment pool for the Lake-Geauga Computer Association. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center has no agency funds

C. Measurement Focus

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

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

The investment trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

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

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

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

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

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

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

E. 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, function, object level for the general fund and fund level for all other 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.

F. Cash and Cash Equivalents

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 2012, investments were limited to Certificates of Deposit and STAR Ohio(State Treasury Asset Reserve of Ohio). STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 on the Investment Company Act of 1940. Investments in STAR Ohio are valued as STAR Ohio's share price, which is the price the investment, could be sold for on June 30, 2012.

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 that 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.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2012, the general fund received interest earned in the amount of \$6,447 and the private purpose trust received interest earned in the amount of \$6,424.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, 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.

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 Educational Service Center's capitalization threshold is \$1,000. 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 useful lives for furniture and fixtures of five to ten years.

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.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences 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 due for payment during the current fiscal year.

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.

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

N. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted The restricted fund balance is reported when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education; the highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund balance have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not constrained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 Educational Service Center and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2012.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 3 – Change in Accounting Principle

For fiscal year 2012, the Educational Service Center has implemented Governmental Accounting Standard Board (GASB) Statement No.64, “Derivative Instruments: Application of Hedge Accounting Termination.” GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the School District’s financial statements.

Note 4 – Fund Balances

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

<i>Fund Balance</i>	<i>General Fund</i>	<i>NonMajor Governmental Funds</i>	<i>Total</i>
<i>Restricted For:</i>			
Other Purposes	\$0	\$69,720	\$69,720
<i>Total Restricted</i>	0	69,720	69,720
<i>Assigned to:</i>			
Encumbrances	8,565	1,486	10,051
<i>Unassigned</i>	1,189,070	0	1,189,070
<i>Total Fund Balances</i>	<u>\$1,197,635</u>	<u>\$71,206</u>	<u>\$1,268,841</u>

Note 5 - Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity-Budget and Actual (Budget Basis) Proprietary Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 5 - Budgetary Basis of Accounting (continued)

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

Net Change in Fund Balance

	<i>General</i>
<i>GAAP Basis</i>	\$125,314
Net Adjustment for Revenue Accruals	(72,326)
Net Adjustment for Expenditure Accruals	21,853
Advances Out	(4,275)
Adjustment for Encumbrances	(9,658)
<i>Budget Basis</i>	\$60,908

Note 6 - Deposits and Investments

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

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.

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.

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

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

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

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 6 - Deposits and Investments (continued)

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

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

Deposits At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$4,404,069. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2012, \$3,992,642 of the Educational Service Center's \$4,492,642 bank balance was exposed to custodial risk as discussed below, while \$500,000 was covered by Federal Deposit Insurance Corporation.

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 6 - Deposits and Investments (continued)

Investments As of June 30, 2012, the Educational Service Center had no outstanding investments.

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.

Concentration of Credit Risk. The Educational Service Center places no limit on the amount that may be invested to any one issue.

Note 7 - Receivables

Receivables at June 30, 2012 consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full. A summary of the principal items of intergovernmental receivables follows:

	<i>Amounts</i>
<i>General Fund</i>	
ODE – GED Funding	\$2,345
Reimbursement for Fiscal Services	2,160
Customer Sales & Services	276,366
<i>Total General Fund</i>	280,871
Alternative Schools Grant	1,489
Higher Education Alignment Grant	3,798
Miscellaneous Federal Grant	26,910
<i>Total Special Revenue Funds</i>	32,197
<i>Total Intergovernmental Receivables</i>	\$ 313,068

Note 8 - 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 \$43.50 for each of the 12,000 students who are provided services. The \$43.50 is comprised of the following: \$6.50 times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school district's to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, \$37.00 times the ADM is paid by the State Board of Education from State funds.

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.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 9 - Jointly Governed Organization and Insurance Purchasing Pool

A. Jointly Governed Organization

The Lake-Geauga Education Computer Association (“Association”) is a jointly governed organization consisting of 20 school districts in Lake, Geauga and Cuyahoga County. This 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. The Association is organized under Chapter 167 and 3313 of the Ohio Revised Code and is governed by an assembly that consists of a superintendent or designated representative from each participating member. The Association has a Board of Directors chosen from the general membership of the Association’s assembly. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. The degree of control exercised by any participating school district is limited to its voting rights at general assembly meetings. The Educational Service Center is the fiscal agent as well as a voting member of the Association. All the consortium revenues are generated from charges for services and State funding. To obtain financial information, write the Lake-Geauga Education Computer Association, 8140 Auburn Road, Painesville, Ohio, 44077.

B. Insurance Purchasing Pool

The Educational Service Center participates in a group rating plan for workers’ compensation as established under section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers’ Compensation Group Rating Program (“Plan”) was established as an insurance purchasing pool.

The Plan’s business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance at</u> <u>6/30/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>6/30/12</u>
<i>Governmental Activities:</i>				
<i>Capital Assets, being depreciated:</i>				
Furniture, Fixtures & Equipment	\$ 193,582	\$ 1,306	\$ (3,886)	\$ 191,002
<i>Total Capital Assets, being depreciated</i>	<u>193,582</u>	<u>1,306</u>	<u>(3,886)</u>	<u>191,002</u>
<i>Less Accumulated Depreciation:</i>				
Furniture, Fixtures & Equipment	<u>(156,659)</u>	<u>(10,661)</u>	<u>3,886</u>	<u>(163,434)</u>
<i>Total Accumulated Depreciation</i>	<u>(156,659)</u>	<u>(10,661)</u>	<u>3,886</u>	<u>(163,434)</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 36,923</u>	<u>\$ (9,355)</u>	<u>\$ (0)</u>	<u>\$ 27,568</u>

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 10 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$2,477
Support Services:	
Pupils	112
Instructional Staff	1,841
Administration	909
Fiscal	853
Business	301
Transportation	1,836
Central	<u>2,332</u>
<i>Total Depreciation Expense</i>	<u><u>\$10,661</u></u>

There was no significant construction in progress at June 30, 2012.

Note 11 - 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 2012, the Educational Service Center was insured under the county wide contract held by the Geauga County Commissioners.

Professional liability was protected by Hylant Administrative Services, LLC with a \$5,000,000 annual aggregate/\$3,000,000 single occurrence limit and no deductible for each claim. Vehicles are covered by Nationwide Insurance Company and have a \$100 deductible for comprehensive and \$500 deductible for collision. The policy includes coverage for hired and nonowned automobiles. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past fifteen years.

For fiscal year 2012, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 9B). The Program is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to districts that can meet the selection criteria. The Districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 12 - Pension Plans

A. School Employees Retirement System

Plan Description – The Educational Service Center participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the 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 annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$303,688, \$288,819, and \$193,437 respectively. 100 percent has been contributed for all three 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 system. 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 can 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 multiplied by 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 DB Plan and the DC 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 payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 12 - Pension Plans (continued)

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Educational Service Center's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$714,209 for fiscal year 2012, \$747,058 for the fiscal year ended June 30, 2011, and \$691,338 for the fiscal year ended June 30, 2010. For fiscal year 2011, 2010 and 2009, 100 percent has been contributed for the DB plan and 100 percent has been contributed for the Combined Plan.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2012 were \$5,879 made by the Educational Service Center and \$4,200 made by the plan members. In addition, member contributions of \$4,887 were made for fiscal year 2012 for the defined contribution portion of the Combined Plan.

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 Employees Retirement System. As of June 30, 2012, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages.

Note 13 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 13 - Postemployment Benefits (continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, .55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2012, this amount was \$35,800. During fiscal year 2012, the Educational Service Center paid \$32,740 in surcharge.

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

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$13,152, \$34,971, and \$6,984, respectively. The full amount has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were \$17,934, \$18,586, and \$11,539, respectively. For fiscal year 2012, 2011 and 2010, 100 percent has been contributed.

B. State Teachers Retirement System

Plan Description – The School District participates in 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. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 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 Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The Educational Service Center contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$54,939, \$53,361, and \$53,180, respectively. For fiscal year 2012, 2011 and 2010, 100 percent has been contributed.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 14 - Employee Benefits

A. Compensated Absences

Certified and Classified employees earn ten to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation is paid upon termination of employment. Administrators, supervisors, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 260 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 65 days.

B. Life Insurance

The Educational Service Center provides \$50,000 life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Life Insurance Trust.

Note 15 - Long-Term Obligations

Changes in long-term obligations during fiscal year 2012 are as follows:

	<i>Balance July 1,2011</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance June 30,2012</i>	<i>Due Within One Year</i>
Compensated Absences	\$ 232,204	\$126,866	(\$21,532)	\$ 337,538	\$ 38,917
<i>Total Long-Term Obligations</i>	<u>\$ 232,204</u>	<u>\$126,866</u>	<u>(21,532)</u>	<u>\$ 337,538</u>	<u>\$ 38,917</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid.

Note 16 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions specified in the grant agreements and 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 financial position of the Educational Service Center.

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 on the financial condition of the Educational Service Center.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012(continued)

Note 17 – External Investment Pool

By Statute, the Educational Service Center serves as fiscal agent for a legally separate entity. The Educational Service Center pools money of this entity with the Educational Service Center’s for investment purposes. The Educational Service Center cannot allocate its investment between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each Participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The fair value and carrying amounts for both the internal and external investment pools are disclosed in Note 4, “Deposits and Investment”. Condensed financial information for the investment pool follows:

Statement of Net Assets
June 30, 2012

Assets	
Equity in Cash and Cash Equivalents	\$4,404,069
<i>Total Assets</i>	\$4,404,069
 Net Assets Held in Trust for Pool Participants	
Internal Portion	\$2,121,092
External Portion	2,282,977
<i>Total Net Assets Held in Trust for Pool Participants</i>	\$4,404,069

Statement of Changes Net Assets
For Fiscal Year June 30, 2012

Revenues	
Interest	\$12,871
Expenses	
Operating Expenses	0
<i>Net Increase in Assets Resulting from Operations</i>	12,871
Distribution to Participants	(12,871)
Capital Transactions	541,040
<i>Total Increase in Net Assets</i>	541,040
<i>Net Assets Beginning of Year</i>	3,863,029
<i>Net Assets End of Year</i>	\$4,404,069

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Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The discussion and analysis of Geauga County Educational Service Center'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, 2011. 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 2011 are as follows:

- A presentation of financial information under Governmental Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments".
- In total, net assets increased by \$79,744.
- Revenues for governmental activities totaled \$11,230,671 in 2011. Of this total, 8 percent consisted of General revenues while Program revenues accounted for the balance of 92 percent.
- Program expenses totaled \$11,150,927. Instructional expenses made up 32 percent of this total while support services accounted for 68 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 Geauga County 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 County Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of Geauga County Educational Service Center, the general fund by far is the most significant fund.

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 County 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 2011?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

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.

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 and support services.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund begins on page 47. 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 fund is the general 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.

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 2011 compared to 2010:

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 1
Net Assets

	<i>Governmental Activities</i>	
	<i>2011</i>	<i>2010</i>
Assets		
Current and Other Assets	\$2,165,890	\$2,093,815
Capital Assets, Net	36,923	48,017
Total Assets	2,202,813	2,141,832
Liabilities		
Current and Other Liabilities	1,081,962	1,081,030
Long-Term Liabilities		
Due Within One Year	21,532	33,675
Due in More than One Year	210,672	218,254
Total Liabilities	1,314,166	1,332,959
Net Assets		
Invested in Capital Assets, Net of Debt	36,923	48,017
Restricted for Other Purposes	11,607	16,380
Unrestricted	840,117	744,476
Total Net Assets	\$888,647	\$808,873

Total assets increased by \$60,981. Current and Other Assets increased by \$72,075. The increase is attributed to an increase in cash and cash equivalents. Liabilities decreased by \$18,793 mostly as a result of a decrease in accrued wages and the benefits payable associated to accrued wages.

By comparing assets and liabilities, one can see the overall position of the Educational Service Center remains stable as evidenced by the minimal increase in net assets.

Table 2 shows the changes in net assets from fiscal year 2011 to fiscal year 2010. A comparative analysis of government-wide data is presented below:

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 2
Changes in Net Assets

	<i>Governmental Activities 2011</i>	<i>Governmental Activities 2010</i>
Revenues		
Program Revenues:		
Charges for Services and Sales	\$10,041,200	\$9,730,781
Operating Grants and Contributions	253,817	235,006
<i>Total Program Revenues</i>	<u>10,295,017</u>	<u>9,965,787</u>
General Revenues:		
Grants and Entitlements	895,307	839,465
Investments	3,555	3,342
Miscellaneous	36,792	28,640
<i>Total General Revenues</i>	<u>935,654</u>	<u>871,447</u>
<i>Total Revenues</i>	<u>11,230,671</u>	<u>10,837,234</u>
Program Expenses		
Instruction		
Regular	158,644	153,842
Special	3,170,085	3,182,758
Vocational	262,354	210,125
Adult/Continuing	3,450	217
Support Services:		
Pupil	3,540,186	3,472,365
Instructional Staff	2,111,878	2,058,055
Board of Education	26,420	29,167
Administration	1,309,390	1,339,150
Fiscal	251,457	230,302
Business	24,283	21,260
Operation and Maintenance	90,257	63,010
Pupil Transportation	3,912	4,079
Central	198,611	104,466
<i>Total Program Expenses</i>	<u>11,150,927</u>	<u>10,868,796</u>
Increase/Decrease in Net Assets	79,744	(31,562)
<i>Net Assets Beginning of Year</i>	<u>808,903</u>	<u>840,435</u>
<i>Net Assets End of Year</i>	<u><u>\$888,647</u></u>	<u><u>\$808,873</u></u>

Governmental Activities

Table 2 compares 2011 revenues and expenses to 2010. During the year, the Educational Service Center collected significantly more charges for service and sales revenue as compared to fiscal year 2010. This increased collection can be attributed to additional revenues generated due to staff development services offered to participating districts and additional pupil support services offered to participating districts. Expenditures also increased significantly due to the additional pupil and staff support offered to the participating districts.

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

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 \$855,910 Net Cost of Services for 2011, tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

	<i>Total Cost of Services 2011</i>	<i>Net Cost of Services 2011</i>	<i>Total Cost of Services 2010</i>	<i>Net Cost of Services 2010</i>
Instruction:				
Regular	\$158,644	\$17,036	\$153,842	\$29,369
Special	3,170,085	225,328	3,182,758	265,145
Vocational	262,354	20,961	210,125	16,219
Adult/Continuing	3,450	275	217	17
Support Services:				
Pupil	3,540,186	278,475	3,472,365	253,572
Instructional Staff	2,111,878	171,888	2,058,055	162,653
Board of Education	26,420	2,111	29,167	3,601
Administration	1,309,390	98,675	1,339,150	155,844
Fiscal	251,457	13,816	230,302	15,821
Business	24,283	2,166	21,260	1,641
Operation and Maintenance of Plant	90,257	7,211	63,010	4,863
Pupil Transportation	3,912	2,577	4,079	(15,922)
Central	198,611	15,391	104,466	10,186
Total	\$11,150,927	\$855,910	\$10,868,796	\$903,009

The Educational Service Center's Funds

Information regarding the Educational Service Center's major fund can be found on page 56 & 57 of the notes to the basic financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,230,671 and expenditures of \$11,159,556. The General Fund balance increased \$75,913.

General Fund Budgeting Highlights

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

During the course of fiscal 2011, the Educational Service Center amended its general fund budget significantly. Many of the amendments were due to changes made in service programs offered to the participating districts; such as additional pupil support services and staff development services. The general fund is often called upon to advance funds to one project or another. During the course of the fiscal year federal and state grants will be awarded or material changes in existing grants will require a budgetary modification.

Geauga County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

For the general fund, the original budget basis revenue estimate totaled \$10,319,567 compared to the final budget basis revenue estimate of \$11,295,663. The increase can be attributed to increased collection from tuition and fees revenues. The final budget basis expenditures estimate totaled \$11,296,654 compared to original estimates of \$9,546,752; changes were made to pay for increased services provided to local school districts for special education services, support services for pupils and staff during the fiscal year.

Capital Assets

At the end of fiscal 2011, the Educational Service Center had \$36,923 invested in furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal 2011 values compared to 2010.

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

	<i>Governmental Activities</i>	
	<i>2011</i>	<i>2010</i>
Furniture and Fixtures	\$193,582	\$192,270
Accumulated Depreciation	(156,659)	(144,252)
<i>Totals</i>	<i>\$36,923</i>	<i>\$48,018</i>

All capital assets are reported at historical cost. For more information on capital assets refer to Note 10 of the basic financial statements.

Current Financial Related Activities

Geauga County Educational Service Center is financially sound. The Board and administration closely monitor 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'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 Lorri Petersen, Treasurer, at Geauga County Educational Service Center, 470 Center St. Bldg 2, Chardon, Ohio 44024-1068 or call 440-285-2222.

Geauga County Educational Service Center

Statement of Net Assets

June 30, 2011

	<i>Governmental Activities</i>
<i>Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$2,019,291
Intergovernmental Receivable	146,599
Depreciable Capital Assets, net	36,923
<i>Total Assets</i>	2,202,813
<i>Liabilities</i>	
Accounts Payable	9,061
Accrued Wages and Benefits	878,487
Intergovernmental Payable	194,414
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	21,532
Due in More Than One Year	210,672
<i>Total Liabilities</i>	1,314,166
<i>Net Assets</i>	
Invested in Capital Assets, Net of Related Debt	36,923
Restricted for Other Purposes	11,607
Unrestricted	840,117
<i>Total Net Assets</i>	\$888,647

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2011

	<i>Program Revenues</i>		<i>Net (Expense) Revenue and Changes in Net Assets</i>
<i>Expenses</i>	<i>Charges for Services and Sales</i>	<i>Operating Grants and Contributions</i>	<i>Governmental Activities</i>
<i>Governmental Activities</i>			
Instruction:			
Regular	\$158,644	\$122,754	\$18,854
Special	3,170,085	2,870,658	74,099
Vocational	262,354	241,393	0
Adult/Continuing	3,450	3,175	0
Support Services:			
Pupils	3,540,186	3,206,678	55,033
Instructional Staff	2,111,878	1,878,170	61,820
Board of Education	26,420	24,309	0
Administration	1,309,390	1,169,704	41,011
Fiscal	251,457	237,641	0
Business	24,283	22,117	0
Operation and Maintenance of Plant	90,257	83,046	0
Pupil Transportation	3,912	1,335	0
Central	198,611	180,220	3,000
<i>Totals</i>	\$11,150,927	\$10,041,200	\$253,817
<i>General Revenues</i>			
Grants and Entitlements not Restricted to Specific Programs			895,307
Gifts and Donations			36,792
Investment Earnings			3,555
<i>Total General Revenues</i>			935,654
<i>Change in Net Assets</i>			79,744
<i>Net Assets Beginning of Year</i>			808,903
<i>Net Assets End of Year</i>			\$888,647

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2011

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<i>Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$2,006,786	\$12,505	\$2,019,291
Intergovernmental Receivable	146,599	0	146,599
<i>Total Assets</i>	\$2,153,385	\$12,505	\$2,165,890
<i>Liabilities</i>			
Accounts Payable	\$8,163	\$898	\$9,061
Accrued Wages and Benefits	878,487	0	878,487
Intergovernmental Payable	194,414	0	194,414
<i>Total Liabilities</i>	1,081,064	898	1,081,962
<i>Fund Balances</i>			
Restricted	0	11,607	11,607
Assigned	2,324	0	2,324
Unassigned	1,069,997	0	1,069,997
<i>Total Fund Balances</i>	1,072,321	11,607	1,083,928
<i>Total Liabilities and Fund Balances</i>	\$2,153,385	\$12,505	\$2,165,890

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2011*

Total Governmental Fund Balances \$1,083,928

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 36,923

Long-term compensated absences liabilities are not due and
payable in the current period and therefore are not reported
in the funds. (232,204)

Net Assets of Governmental Activities \$888,647

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Customer Sales and Services	\$7,338,251	\$140,404	\$7,478,655
Intergovernmental	895,307	253,817	1,149,124
Tuition and Fees	2,562,545	0	2,562,545
Interest	3,555	0	3,555
Gifts and Donations	36,792	0	36,792
Total Revenues	10,836,450	394,221	11,230,671
Expenditures			
Current:			
Instruction:			
Regular	128,892	29,752	158,644
Special	3,119,933	74,099	3,194,032
Vocational	262,354	0	262,354
Adult/Continuing	3,450	0	3,450
Support Services:			
Pupils	3,485,132	46,792	3,531,924
Instructional Staff	2,022,509	83,349	2,105,858
Board of Education	26,420	0	26,420
Administration	1,141,955	162,027	1,303,982
Fiscal	258,277	0	258,277
Business	24,038	0	24,038
Operation and Maintenance of Plant	91,708	0	91,708
Central	195,869	3,000	198,869
Total Expenditures	10,760,537	399,019	11,159,556
Excess of Revenues Over (Under) Expenditures	75,913	(4,798)	71,115
Fund Balances Beginning of Year	996,408	16,405	1,012,813
Fund Balances End of Year	\$1,072,321	\$11,607	\$1,083,928

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011*

Net Change in Fund Balances - Total Governmental Funds \$71,115

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

Governmental funds report capital outlay as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. In the current period, these amounts are:

Capital Assets - Additions	3,735	
Depreciation	(14,830)	
	(11,095)	
Total		(11,095)

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

Compensated Absences	19,724	
	19,724	
Total		19,724

Changes in Net Assets of Governmental Activities \$79,744

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Over/(Under)
	Original	Final		
Revenues				
Customer Sales and Services	\$7,110,117	\$7,797,464	\$7,786,365	(\$11,099)
Intergovernmental	817,500	895,307	895,307	0
Tuition and Fees	2,374,300	2,562,545	2,562,545	0
Interest	3,000	3,555	3,555	0
Gifts and Donations	14,650	36,792	36,792	0
Total Revenues	10,319,567	11,295,663	11,284,564	(11,099)
Expenditures				
Current:				
Instruction:				
Regular	116,287	137,673	127,803	9,870
Special	2,878,711	3,341,587	3,139,769	201,818
Vocational	164,773	274,910	260,685	14,225
Adult/Continuing	5,035	7,461	3,450	4,011
Support Services:				
Pupils	3,121,204	3,571,298	3,483,331	87,967
Instructional Staff	1,642,096	2,094,845	1,991,602	103,243
Board of Education	42,332	35,946	26,420	9,526
Administration	1,172,592	1,207,682	1,155,551	52,131
Fiscal	217,671	280,306	258,617	21,689
Business	21,500	24,487	24,038	449
Operation and Maintenance of Plant	64,114	96,528	91,708	4,820
Central	100,437	223,931	193,103	30,828
Total Expenditures	9,546,752	11,296,654	10,756,077	540,577
Net Change in Fund Balance	772,815	(991)	528,487	529,478
Fund Balance Beginning of Year	1,446,618	1,446,618	1,446,618	0
Prior Year Encumbrances Appropriated	28,256	28,256	28,256	0
Fund Balance End of Year	\$2,247,689	\$1,473,883	\$2,003,361	\$529,478

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2011

	<u><i>Investment Trust</i></u>
<i>Assets</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,843,738</u>
<i>Total Assets</i>	<u><u>\$1,843,738</u></u>
<i>Net Assets</i>	
Held in Trust for Pool Participants	<u>\$1,843,738</u>
<i>Total Net Assets</i>	<u><u>\$1,843,738</u></u>

See Accompanying Notes to the Basic Financial Statements

Geauga County Educational Service Center

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Fiscal Year June 30, 2011

	<u><i>Investment Trust</i></u>
<i>Additions</i>	
Interest	\$3,554
<i>Deductions</i>	
Distributions to Participants	(3,554)
Capital Transactions	189,820
<i>Total Deductions</i>	<u>186,266</u>
<i>Change in Net Assets</i>	189,820
<i>Net Assets Beginning of Year</i>	<u>1,653,918</u>
<i>Net Assets End of Year</i>	<u><u>\$1,843,738</u></u>

See Accompanying Notes to the Basic Financial Statements

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Geauga County Educational Service Center

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

Note 1 - Description of the Educational Service Center

The Geauga County Schools' Educational Service Center (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 1, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological, and other needed services to local school districts in Geauga County.

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 instructional/support facilities staffed by 98 noncertificated, 100 certificated staff that provides services to 12,146 students through the school districts in Geauga County.

Reporting Entity

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

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

The Educational Service Center is associated with certain organizations which are defined as jointly governed organizations and an insurance purchasing pool. These organizations are presented in note 9 to the basic financial statements. These organizations include the Lake-Geauga Computer Association and the Ohio School Boards Association Workers Compensation Group Rating Program.

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Educational Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its governmental activities unless those pronouncements conflict with or contradict GASB - pronouncements. Explanation of the Educational Service Center's more significant policies follow.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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.

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 an investment trust fund which is used to account for the activity of the external investment pool for the Lake-Geauga Computer Association. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center has no agency funds

C. Measurement Focus

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

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

The investment trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

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

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

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

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

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

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

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

E. 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, function, object level for the general fund and fund level for all other 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.

F. Cash and Cash Equivalents

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 2011, investments were limited to Certificates of Deposit and STAROhio(State Treasury Asset Reserve of Ohio). STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 on the Investment Company Act of 1940. Investments in STAROhio are valued as STAROhio's share price, which is the price the investment, could be sold for on June 30, 2011.

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 that 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.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2011, the general fund received interest earned in the amount of \$3,555 and the private purpose trust received interest earned in the amount of \$3,554.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, 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.

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 Educational Service Center's capitalization threshold is \$1,000. 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 useful lives for furniture and fixtures of five to ten years.

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.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences 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 due for payment during the current fiscal year.

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.

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

N. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted The restricted fund balance is reported when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 2 - Summary of Significant Accounting Policies (continued)

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education; the highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund balance have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not constrained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 Educational Service Center and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 3 – Change in Accounting Principles and Restatement of Fund Balance

Change in Accounting Principles

For fiscal year 2011, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” and Statement No. 59, “Financial Instruments Omnibus”.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of the School District’s financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments and external investment pools. The implementation of this statement did not result in any change in the School District’s financial statements.

Restatement of Fund Balance

The implementation of GASB Statement No. 54 had no effect on the fund balances of the major and nonmajor funds as previously reported.

Note 4 – Fund Balances

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

<i>Fund Balance</i>	<i>General Fund</i>	<i>NonMajor Governmental Funds</i>	<i>Total</i>
<i>Restricted For:</i>			
Other Purposes	\$ 0	\$ 11,607	\$ 11,607
<i>Total Restricted</i>	0	11,607	11,607
<i>Assigned to:</i>			
Encumbrances	2,324	0	2,324
<i>Unassigned</i>	1,069,997	0	1,069,997
<i>Total Fund Balances</i>	<u>\$ 1,072,321</u>	<u>\$ 11,607</u>	<u>\$ 1,083,928</u>

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 5 - Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity-Budget and Actual (Budget Basis) Proprietary Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

Net Change in Fund Balance

	<i>General</i>
<i>GAAP Basis</i>	\$75,913
Net Adjustment for Revenue Accruals	448,114
Net Adjustment for Expenditure Accruals	7,885
Adjustment for Encumbrances	(3,425)
<i>Budget Basis</i>	\$528,487

Note 6 - Deposits and Investments

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

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.

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.

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).

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 6 - Deposits and Investments (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.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 6 - Deposits and Investments (continued)

Deposits At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$3,863,029. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2011, \$3,182,919 of the Educational Service Center's \$3,922,038 bank balance was exposed to custodial risk as discussed below, while \$739,119 was covered by Federal Deposit Insurance Corporation.

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

Investments As of June 30, 2011, the Educational Service Center had no outstanding investments.

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.

Concentration of Credit Risk. The Educational Service Center places no limit on the amount that may be invested to any one issue.

Note 7 - Receivables

Receivables at June 30, 2011 consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full. A summary of the principal items of intergovernmental receivables follows:

	<i>Amounts</i>
<i>General Fund:</i>	
Customer Sales & Services	\$146,599
<i>Total Receivables</i>	\$146,599

Note 8 - 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 \$43.50 for each of the 12,146 students who are provided services. The \$43.50 is comprised of the following: \$6.50 times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school district's to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, \$37.00 times the ADM is paid by the State Board of Education from State funds.

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.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 9 - Jointly Governed Organization and Insurance Purchasing Pool

A. Jointly Governed Organization

The Lake-Geauga Education Computer Association (“Association”) is a jointly governed organization consisting of 20 school districts in Lake, Geauga and Cuyahoga County. This 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. The Association is organized under Chapter 167 and 3313 of the Ohio Revised Code and is governed by an assembly that consists of a superintendent or designated representative from each participating member. The Association has a Board of Directors chosen from the general membership of the Association’s assembly. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. The degree of control exercised by any participating school district is limited to its voting rights at general assembly meetings. The Educational Service Center is the fiscal agent as well as a voting member of the Association. All the consortium revenues are generated from charges for services and State funding. To obtain financial information, write the Lake-Geauga Education Computer Association, 8140 Auburn Road, Painesville, Ohio, 44077.

B. Insurance Purchasing Pool

The Educational Service Center participates in a group rating plan for workers’ compensation as established under section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers’ Compensation Group Rating Program (“Plan”) was established as an insurance purchasing pool.

The Plan’s business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Note 10 - Capital Assets

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

	<u>Balance at</u> <u>6/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>6/30/11</u>
<i>Governmental Activities:</i>				
<i>Capital Assets, being depreciated:</i>				
Furniture, Fixtures & Equipment	\$ 192,270	\$ 3,735	\$ (2,423)	\$ 193,582
<i>Total Capital Assets, being depreciated</i>	<u>192,270</u>	<u>3,735</u>	<u>(2,423)</u>	<u>193,582</u>
<i>Less Accumulated Depreciation:</i>				
Furniture, Fixtures & Equipment	(144,252)	(14,830)	2,423	(156,659)
<i>Total Accumulated Depreciation</i>	<u>(144,252)</u>	<u>(14,830)</u>	<u>2,423</u>	<u>(156,659)</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 48,018</u>	<u>\$ (11,095)</u>	<u>\$ (0)</u>	<u>\$ 36,923</u>

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 10 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$5,981
Support Services:	
Pupils	91
Instructional Staff	1,500
Administration	1,283
Fiscal	1,191
Business	245
Transportation	2,461
Central	2,078
<i>Total Depreciation Expense</i>	<i>\$14,830</i>

There was no significant construction in progress at June 30, 2011.

Note 11 - 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 2011, the Educational Service Center was insured under the county wide contract held by the Geauga County Commissioners.

Professional liability was protected by Hylant Administrative Services, LLC with a \$5,000,000 annual aggregate/\$3,000,000 single occurrence limit and no deductible for each claim. Vehicles are covered by Nationwide Insurance Company and have a \$100 deductible for comprehensive and \$500 deductible for collision. The policy includes coverage for hired and nonowned automobiles. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past fifteen years.

For fiscal year 2011, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 9B). The Program is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to districts that can meet the selection criteria. The Districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 12 - Pension Plans

A. School Employees Retirement System

Plan Description – The Educational Service Center participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the 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 annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$288,819, \$193,437 and \$133,407, respectively. For fiscal year 2011, 100 percent has been contributed for all three 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 system. 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 can 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 multiplied by 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 DB Plan and the DC 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 payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 12 - Pension Plans (continued)

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Educational Service Center's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$747,058 for the fiscal year ended June 30, 2011, \$691,338 for the fiscal year ended June 30, 2010, and \$644,891 for the fiscal year ended June 30, 2009. For fiscal year 2011, 2010 and 2009, 100 percent has been contributed for the DB plan and 100 percent has been contributed for the Combined Plan.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2011 were \$5,879 made by the Educational Service Center and \$4,200 made by the plan members. In addition, member contributions of \$4,887 were made for fiscal year 2011 for the defined contribution portion of the Combined Plan.

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 Employees Retirement System. As of June 30, 2011, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages.

Note 13 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 13 - Postemployment Benefits (continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2011, this amount was \$34,971. During fiscal year 2011, the Educational Service Center paid \$33,141 in surcharge.

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

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$34,971, \$6,984, and \$62,884, respectively. The full amount has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009, were \$18,586, \$11,539, and \$11,337 respectively. For fiscal year 2011, 2010 and 2009 100 percent has been contributed.

B. State Teachers Retirement System

Plan Description – The School District participates in 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. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 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 Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The Educational Service Center contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$53,361, \$53,180, and \$49,607 respectively. For fiscal year 2011, 2010 and 2009, 100 percent has been contributed.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 14 - Employee Benefits

A. Compensated Absences

Certified and Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation is paid upon termination of employment. Administrators, supervisors, and classified 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 60 days.

B. Life Insurance

The Educational Service Center provides \$50,000 life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Life Insurance Trust.

Note 15 - Long-Term Obligations

Changes in long-term obligations during fiscal year 2011 are as follows:

	<i>Balance July 1,2010</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance June 30,2011</i>	<i>Due Within One Year</i>
Compensated Absences	\$ 251,929	\$13,950	(\$33,675)	\$ 232,204	\$ 21,532
<i>Total Long-Term Obligations</i>	<u>\$ 251,929</u>	<u>\$13,950</u>	<u>(\$33,675)</u>	<u>\$ 232,204</u>	<u>\$ 21,532</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid.

Note 16 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions specified in the grant agreements and 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 financial position of the Educational Service Center.

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 on the financial condition of the Educational Service Center.

Geauga County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011(continued)

Note 17 – External Investment Pool

By Statute, the Educational Service Center serves as fiscal agent for a legally separate entity. The Educational Service Center pools money of this entity with the Educational Service Center’s for investment purposes. The Educational Service Center cannot allocate its investment between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each Participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The fair value and carrying amounts for both the internal and external investment pools are disclosed in Note 4, “Deposits and Investment”. Condensed financial information for the investment pool follows:

Statement of Net Assets
June 30, 2011

Assets	
Equity in Cash and Cash Equivalents	\$3,863,029
<i>Total Assets</i>	\$3,863,029
 Net Assets Held in Trust for Pool Participants	
Internal Portion	\$2,019,291
External Portion	1,843,738
<i>Total Net Assets Held in Trust for Pool Participants</i>	\$3,863,029

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

Revenues	
Interest	\$7,110
Expenses	
Operating Expenses	0
<i>Net Increase in Assets Resulting from Operations</i>	7,110
Distribution to Participants	(7,110)
Capital Transactions	710,009
<i>Total Increase in Net Assets</i>	710,009
<i>Net Assets Beginning of Year</i>	3,153,020
<i>Net Assets End of Year</i>	\$3,863,029

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Dave Yost • Auditor of State

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

Geauga County Educational Service Center
Geauga County
470 Center Street, Building #2
Chardon, Ohio 44024

To the Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Geauga County Educational Service Center, Geauga County, (the Service Center) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated February 8, 2013, wherein we noted the District adopted the provisions of Governmental Accounting Standard Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, 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 Service 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 Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, the audit committee, the Board and others within the Service Center. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

February 8, 2013



Dave Yost • Auditor of State

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER

GEAUGA 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 19, 2013**