



Dave Yost • Auditor of State

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Lake County Educational Service Center
Lake County
382 Blackbrook Road
Painesville, Ohio 44077

To the Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake County Educational Service Center, Lake County, Ohio (the Center), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lake County Educational Service Center, Lake County, Ohio, as of June 30, 2013, and the respective changes in financial position and where applicable, cash flows, for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the Center's basic financial statements taken as a whole.

The federal awards receipts and expenditures schedule presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2014, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

January 14, 2014

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Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

The discussion and analysis of the Lake County Educational Service Center's (Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2013. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center's performance.

Financial Highlights

Key financial highlights for fiscal year 2013 are as follows:

- Net position of governmental activities decreased \$196,994 in fiscal year 2013.
- General revenues accounted for \$6,747,715 in revenue or 35% of total revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$12,549,045 or 65% of total revenues of \$19,296,760 .
- The Center had \$19,493,754 in expenses related to governmental activities; \$12,549,045 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts of \$6,747,715 were also used to provide for these programs.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The Government-wide Financial Statements answers this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

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

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

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

Fund Financial Statements

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

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

Proprietary Fund - When services are provided to another department of the Center, the service is reported as an internal service fund. The Center has one internal service fund.

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

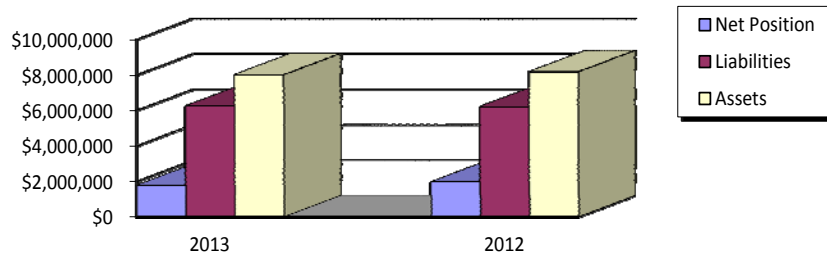
The Center as a Whole

As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the Center's net position for 2013 compared to 2012:

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

Table 1
Net Position

	Governmental Activities	
	2013	2012
Assets:		
Current and Other Assets	\$7,990,937	\$8,147,559
Capital Assets	25,030	31,567
Total Assets	8,015,967	8,179,126
Liabilities:		
Other Liabilities	6,123,946	6,031,996
Long-Term Liabilities	125,162	183,277
Total Liabilities	6,249,108	6,215,273
Net Position:		
Net Investment in Capital Assets	25,030	31,567
Restricted	851,298	944,163
Unrestricted	890,531	988,123
Total Net Position	\$1,766,859	\$1,963,853



Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the District's net position were \$1,766,859.

A portion of the Center's net position, \$851,298 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Total net position decreased due to a decrease in taxes receivable due to the Center when comparing 2012 to 2013.

Table 2 shows the changes in net position for the fiscal year. Refer to the following section for discussion of the reasons for the change in net position during the year.

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

Table 2
Changes in Net Position

	Governmental Activities	
	2013	2012
Revenues:		
Program Revenues		
Charges for Services and Sales	\$9,549,385	\$9,021,475
Operating Grants and Contributions	2,999,660	2,919,422
General Revenues:		
Property Taxes	4,805,893	5,671,712
Grants and Entitlements	1,910,036	2,014,946
Other	31,786	149,177
Total Revenues	<u>19,296,760</u>	<u>19,776,732</u>
Expenses:		
Instruction	4,657,391	4,020,272
Support Services:		
Pupil and Instructional Staff	5,544,934	5,238,890
School Administrative, General		
Administration and Fiscal	8,237,562	8,938,340
Operations and Maintenance	109,267	118,698
Pupil Transportation	132,623	171,011
Central	808,924	745,396
Operation of Non-Instructional Services	<u>3,053</u>	<u>26,887</u>
Total Expenses	<u>19,493,754</u>	<u>19,259,494</u>
Change in Net Position	(196,994)	517,238
Net Position - Beginning of Year	<u>1,963,853</u>	<u>1,446,615</u>
Net Position - End of Year	<u><u>\$1,766,859</u></u>	<u><u>\$1,963,853</u></u>

Governmental Activities

The Center revenues are mainly from charges for services and sales, operating grants and grants and entitlements comprising 75% of the Center's revenues for governmental activities.

Instruction comprises 23.9% of governmental program expenses. Support services were 76.1% of governmental program cash expenses. The remaining program expenses were less than 1%.

Property taxes revenue decreased mainly due to a decrease in taxes receivable in fiscal year 2013 as compared to fiscal year 2012. Total expenses increased mainly due to an increase in personnel costs and general inflationary factors.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. These services are mainly supported by charges for services and sales.

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Instruction	\$4,657,391	\$4,020,272	\$2,050,512	\$1,366,720
Support Services:				
Pupil and Instructional Staff	5,544,934	5,238,890	(2,489,883)	(2,040,720)
School Administrative, General Administration, and Fiscal	8,237,562	8,938,340	(5,929,273)	(6,185,039)
Operations and Maintenance	109,267	118,698	(42,899)	(55,973)
Pupil Transportation	132,623	171,011	(75,582)	(80,471)
Central	808,924	745,396	(474,435)	(346,760)
Operation of Non-Instructional Services	3,053	26,887	5,129	(3,854)
Extracurricular Activities	0	0	11,722	27,500
Total Expenses	<u>\$19,493,754</u>	<u>\$19,259,494</u>	<u>(\$6,944,709)</u>	<u>(\$7,318,597)</u>

The Center's Funds

The Center has two major governmental funds: the General Fund and the Lake County Financing District Fund.

General Fund: Fund balance at June 30, 2013 was \$975,030. The net change in fund balance was \$177,622. The decrease in fund balance was a result of an increase in instructional expenditures.

Lake County Financing District Fund: Fund balance at June 30, 2013 was \$298,389. The net change in fund balance was \$129,761. The decrease in fund balance was a result of a decrease in taxes revenue.

General Fund Budgeting Highlights

Under Ohio law, educational service centers are no longer required to prepare a budget. Therefore, at June 30, 2013 a budgetary statement is not presented within the basic financial statements because the Board of Education did not approve estimated revenues or adopt appropriations except for the Lake County Financing District fund, which is required to be presented since the fund collects property tax revenue.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the Center had \$25,030 invested in equipment. Table 4 shows fiscal year 2013 balances compared to fiscal year 2012:

Lake County Educational Service Center, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

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

	Governmental Activities	
	2013	2012
Equipment	\$25,030	\$31,567
Total Net Capital Assets	<u>\$25,030</u>	<u>\$31,567</u>

Overall, capital assets decreased due to purchases being less than fiscal year 2013 depreciation expense.

See Note 6 to the Basic Financial Statements for further details on the Center’s capital assets.

Debt

At June 30, 2013, the Center had no debt obligations outstanding.

Economic Outlook

The 2010-11 biennial budget (Am. Sub. HBI of the 128th General Assembly) established another new funding formula called the Evidence-Based Model (EBM). Am. Sub. HB 153 of the 129th General Assembly repealed the EBM and implemented a temporary funding formula, the Bridge Formula, for the 12-13 school year as a new funding formula was developed. The State revised the funding model in June, 2013 and adopted HB 59, the FY 14 and FY 15 biennium budget which again changed our funding formula, but not our funding.

All of the Center’s financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the Center’s finances, the Center’s management is confident that the Center can continue to provide quality products and services to the districts in the future.

Contacting the Center’s Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Center’s finances and to show the Center’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Carolyn Bennett, Treasurer at Lake County Educational Service Center.

Lake County Educational Service Center, Ohio
Statement of Net Position
June 30, 2013

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$2,194,568
Restricted Cash and Investments	3,715
Receivables:	
Taxes	5,287,745
Accounts	281,932
Intergovernmental	222,977
Depreciable Capital Assets, Net	<u>25,030</u>
 Total Assets	 <u>8,015,967</u>
Liabilities:	
Accounts Payable	21,452
Accrued Wages and Benefits	1,384,804
Unearned Revenue	4,717,690
Long-Term Liabilities:	
Due Within One Year	76,484
Due In More Than One Year	<u>48,678</u>
 Total Liabilities	 <u>6,249,108</u>
Net Position:	
Net Investment in Capital Assets	25,030
Restricted for:	
Food Service	2,510
Local Grants	53,742
Federal Grants	224,991
Lake County Financing District	570,055
Unrestricted	<u>890,531</u>
 Total Net Position	 <u>\$1,766,859</u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$671,546	\$429,953	\$112,887	(\$128,706)
Special	3,634,313	5,446,812	0	1,812,499
Vocational	149,499	595,481	39,491	485,473
Other	202,033	79,408	3,871	(118,754)
Support Services:				
Pupil	3,169,652	1,305,423	26,334	(1,837,895)
Instructional Staff	2,375,282	595,469	1,127,825	(651,988)
General Administration	6,678,748	6,519	1,594,235	(5,077,994)
School Administration	1,329,517	536,814	84,824	(707,879)
Fiscal	229,297	85,897	0	(143,400)
Operations and Maintenance	109,267	66,368	0	(42,899)
Pupil Transportation	132,623	57,041	0	(75,582)
Central	808,924	332,478	2,011	(474,435)
Operation of Non-Instructional Services	3,053	0	8,182	5,129
Extracurricular Activities	0	11,722	0	11,722
Total Governmental Activities	\$19,493,754	\$9,549,385	\$2,999,660	(6,944,709)

General Revenues:	
Property Taxes Levied for:	
Special Revenue Purposes	4,805,893
Grants and Entitlements not Restricted to Specific Programs	1,910,036
Unrestricted Contributions	16,150
Investment Earnings	50
Other Revenues	15,586
Total General Revenues	6,747,715
Change in Net Position	(196,994)
Net Position - Beginning of Year	1,963,853
Net Position - End of Year	\$1,766,859

See accompanying notes to the basic financial statements.

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Lake County Educational Service Center, Ohio
Balance Sheet
Governmental Funds
June 30, 2013

	General	Lake County Financing District	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$2,017,459	\$0	\$157,441	\$2,174,900
Restricted Cash and Investments	3,715	0	0	3,715
Receivables:				
Taxes	0	5,287,745	0	5,287,745
Accounts	278,109	0	3,643	281,752
Intergovernmental	0	0	222,977	222,977
Interfund	17,906	0	0	17,906
Total Assets	\$2,317,189	\$5,287,745	\$384,061	\$7,988,995
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	\$15,878	\$0	\$1,728	\$17,606
Accrued Wages and Benefits	1,297,351	0	87,453	1,384,804
Compensated Absences	28,930	0	0	28,930
Interfund Payable	0	0	17,906	17,906
Deferred Revenue	0	4,989,356	222,977	5,212,333
Total Liabilities	1,342,159	4,989,356	330,064	6,661,579
Fund Balances:				
Nonspendable	3,715	0	0	3,715
Restricted	0	298,389	79,274	377,663
Assigned	168,271	0	0	168,271
Unassigned	803,044	0	(25,277)	777,767
Total Fund Balances	975,030	298,389	53,997	1,327,416
Total Liabilities and Fund Balances	\$2,317,189	\$5,287,745	\$384,061	\$7,988,995

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2013

Total Governmental Fund Balance \$1,327,416

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

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. 25,030

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

Delinquent Property Taxes	\$271,666	
Intergovernmental	<u>222,977</u>	
		494,643

An internal service fund is used by management to charge
 back costs to individual funds. The assets and
 liabilities of the internal service fund are included in
 governmental activities in the statement of net position. 16,002

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

Compensated Absences		<u>(96,232)</u>
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Net Position of Governmental Activities		<u><u>\$1,766,859</u></u>
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See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General	Lake County Financing District	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$0	\$4,939,122	\$0	\$4,939,122
Tuition and Fees	4,770,912	0	0	4,770,912
Investment Earnings	50	0	0	50
Intergovernmental	1,910,037	1,594,235	1,196,772	4,701,044
Extracurricular Activities	14,946	0	0	14,946
Contract Services	4,644,777	0	0	4,644,777
Other Revenues	150,485	0	0	150,485
Total Revenues	11,491,207	6,533,357	1,196,772	19,221,336
Expenditures:				
Current:				
Instruction:				
Regular	564,763	0	112,168	676,931
Special	3,631,953	0	0	3,631,953
Vocational	87,116	0	62,083	149,199
Other	196,070	0	5,963	202,033
Support Services:				
Pupil	3,160,774	0	20,210	3,180,984
Instructional Staff	1,426,603	0	955,246	2,381,849
General Administration	15,630	6,663,118	0	6,678,748
School Administration	1,275,767	0	59,908	1,335,675
Fiscal	226,991	0	0	226,991
Operations and Maintenance	119,029	0	0	119,029
Pupil Transportation	136,022	0	0	136,022
Central	814,174	0	3,146	817,320
Operation of Non-Instructional Services	0	0	3,053	3,053
Total Expenditures	11,654,892	6,663,118	1,221,777	19,539,787
Excess of Revenues Over (Under) Expenditures	(163,685)	(129,761)	(25,005)	(318,451)
Other Financing Sources (Uses):				
Transfers In	0	0	5,859	5,859
Transfers (Out)	(13,937)	0	0	(13,937)
Total Other Financing Sources (Uses)	(13,937)	0	5,859	(8,078)
Net Change in Fund Balance	(177,622)	(129,761)	(19,146)	(326,529)
Fund Balance - Beginning of Year	1,152,652	428,150	73,143	1,653,945
Fund Balance - End of Year	\$975,030	\$298,389	\$53,997	\$1,327,416

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2013

Net Change in Fund Balance - Total Governmental Funds (326,529)

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

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

Depreciation Expense (6,537)

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

Delinquent Property Taxes	(\$133,229)	
Intergovernmental	<u>208,653</u>	
		75,424

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

Compensated Absences 37,181

The internal service fund used by management to charge back costs to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

23,467

Change in Net Position of Governmental Activities (\$196,994)

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Net Position
Proprietary Fund
June 30, 2013

	<u>Governmental Activities- Internal Service Fund</u>
Assets:	
Current Assets:	
Equity in Pooled Cash and Investments	\$19,668
Receivables:	
Accounts	<u>180</u>
Total Current Assets	<u>19,848</u>
Liabilities:	
Current Liabilities:	
Accounts Payable	<u>3,846</u>
Total Current Liabilities	<u>3,846</u>
Net Position:	
Unrestricted	<u>16,002</u>
Total Net Position	<u><u>\$16,002</u></u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2013

	Governmental Activities- Internal Service Fund
Operating Revenues:	
Other Revenues	<u>\$75,911</u>
Total Operating Revenues	<u>75,911</u>
Operating Expenses:	
Personal Services	17,858
Materials and Supplies	3,458
Purchased Services	<u>39,206</u>
Total Operating Expenses	<u>60,522</u>
Operating Income (Loss)	<u>15,389</u>
Operating Income (Loss) Before Transfers	15,389
Transfers In	<u>8,078</u>
Change in Net Position	23,467
Net Position - Beginning of Year	<u>(7,465)</u>
Net Position - End of Year	<u><u>\$16,002</u></u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2013

	<u>Governmental Activities- Internal Service Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$76,1 1
Cash Payments to Suppliers	(3,458)
Cash Payments for Purchased Services	<u>(55,)</u>
Net Cash Provided (Used) by Operating Activities	<u>17,297</u>
Cash Flows from Noncapital Financing Activities:	
Payments from Other Funds	8,078
Payments to Other Funds	<u>(24,000)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(15,922)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,375
Cash and Cash, Equivalents, Beginning of Year	<u>18,293</u>
Cash and Cash, Equivalents, End of Year	<u><u>\$19,668</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$15,389
Changes in Assets & Liabilities:	
(Increase) Decrease in Receivables	210
Increase (Decrease) in Payables	<u>1,698</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$17,297</u></u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 1 - Description of the Center and Reporting Entity

The Lake County Educational Service Center (the "Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a local county school district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the Center.

The Center is located in Lake County. The Center serves five local school districts: Riverside Local School District, Painesville City Local School District, Kirtland Local School District, Madison Local School District and Perry Local School District.

The Center employed 140 certificated employees and 90 non-certificated employees.

Financial Reporting Entity

The Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The financial statements include all the organizations, activities, functions and component units for which the Center (Primary Government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the Center's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center.

On this basis, the financial statements of the Lake County School Financing District have been included in the accompanying financial statements as a blended component unit. The Financing District is legally separate, but governed by the same board, therefore, the Center has the ability to impose its will over the Financing District. The Center acts as the fiscal agent for the Lake County School Financing District, however the Financing District is reported as a special revenue fund.

The Center is associated with four organizations, two jointly governed organization and two insurance purchasing pools. These organizations are the Lake Geauga Computer Association, Ohio Schools Council Association, the Lake County Schools Council of Governments' Health Care Benefits Program and the Comp Management, Inc. Group Retrospective Rating Program. Information about these organizations is discussed in the notes to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Measurement Focus

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Center finances and meets the cash flow needs of its proprietary activities.

Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The Center classifies each fund as either governmental, proprietary or fiduciary.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Governmental Funds

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

General Fund - The general fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

Lake County Financing District – The Lake County Financing District Fund was created for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

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

Proprietary Fund

Certain Center funds operate similar to business enterprises, where user charges (i.e. charges for services) provide significant resources for the activity. Proprietary funds are classified as either enterprise funds or internal service funds. The Center does not have any enterprise funds.

Internal Service Fund – An internal service fund accounts for the financing of services provided by one department or agency to other Center departments or agencies or to other governments, on a cost reimbursement basis. The Center's internal service fund accounts for teacher's training for special education teachers and finger printing for the local school districts on a cost reimbursement basis.

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

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

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

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

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

Expenses/Expenditures

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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. However, debt service expenditures, as well as any expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Equity in Pooled Cash and Investments

To improve cash management, cash received by the Center is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the basic financial statements.

During fiscal year 2013, investments were limited to STAR Ohio. All investments of the Center had a maturity of one year or less. Investments are reported at fair value, which is based on quoted market prices.

The Center has invested funds in the State Treasury Assets Reserve (STAR Ohio) during fiscal year 2013. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2013.

Following Ohio statutes, the Center has, by resolution, identified the funds to receive an allocation of interest. Interest revenue during 2013 amounted to \$50 in the General fund.

Capital Assets

General capital 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 position but are not reported in the fund financial statements.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Equipment	3 - 10 years

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Compensated Absences

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

The compensated absences liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds and estimated on the Center's past experience of making termination payments.

The Center's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not eligible unless stated in contract	Per contract	10-25 days depending on length of service pending on length of service
Maximum Accumulation	Not eligible unless stated in contract	Non-cumulative unless stated in contract	10 days
Vested	Not applicable or as earned	As earned	As earned
Termination Entitlement	Not applicable or paid upon termination	Paid upon termination or separation	Paid upon termination or separation

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

<u>Sick Leave</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	1-1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	The number of days worked in the year based based on contract	The number of days worked in the year based on contract	The number of days worked in the year based on contract
Vested	As earned	As earned	As earned
Termination Entitlement	120 days	120 days	120 days

Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. The employer contributions include portions for pension benefits and for postretirement health care benefits.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation less outstanding debt used to acquire capital assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's \$851,298 in restricted net position, none were restricted by enabling legislation.

Fund Balance

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

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

Assigned – resources that are intended to be used for specific purposes as approved through the Center’s formal purchasing procedure by the Treasurer.

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

The Center considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Interfund Activity

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

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

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Center, these revenues are sales for teacher’s training and finger printing. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Any revenue and expenses not meeting the definition of operating are reported as non-operating.

Budgetary Process

Except for the Lake County Financing District fund, which is required to be presented since it collects property tax revenue, no budgetary information is presented because the Board of Education did not approve estimated revenues or adopt appropriations. Under Ohio law, Educational Service Centers are not required to prepare a budget.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors or laws of the other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent unclaimed monies.

Note 3 - Equity in Pooled Cash and Investments

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

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

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

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

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio or other Ohio governments.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged pool of securities. As of June 30, 2013, \$2,016,267 of the Center's bank balance of \$2,266,267 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Investments

Investments are reported at fair value. As of June 30, 2013, the Center had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
STAR Ohio	<u>\$66,871</u>	0.16

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

Credit Risk – It is the Center’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Concentration of Credit Risk – The Center’s investment policy allows investments in Federal Agencies or Instrumentalities. At year end, the Center’s allocations of investments were as follows: STAR Ohio (100%).

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

Note 4 - Lake County School Financing District

The Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

The Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts each of such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being the Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date.

Note 5 – Receivables

Receivables at June 30, 2013, consisted of taxes, accounts, intergovernmental grants and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, Being Depreciated</i>				
Equipment	\$117,971	\$0	\$0	\$117,971
Totals at Historical Cost	117,971	0	0	117,971
Less Accumulated Depreciation:				
Equipment	86,404	6,537	0	92,941
Total Accumulated Depreciation	86,404	6,537	0	92,941
Governmental Activities Capital Assets, Net	<u>\$31,567</u>	<u>(\$6,537)</u>	<u>\$0</u>	<u>\$25,030</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$2,652
Special	334
Support Services:	
Instructional Staff	2,428
Central	1,123
Total Depreciation Expense	<u>\$6,537</u>

Note 7 - Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
Governmental Activities:					
Compensated Absences	<u>\$183,277</u>	<u>\$64,790</u>	<u>\$122,905</u>	<u>\$125,162</u>	<u>\$76,484</u>

Compensated Absences will be paid from the fund from which the employee is paid.

Note 8 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Center's contributions to SERS for the years ended June 30, 2013, 2012, and 2011 were \$252,215, \$211,926, and \$259,107, respectively; 91% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011.

State Teachers Retirement System of Ohio

Plan Description

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

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Plan benefits are established under Chapter 3307 of the Revised Code.

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

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Beginning July 1, 2013, the maximum employee contribution will be increased 1 percent each year, until it reaches 14% on July 1, 2016.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2013, were 10% of covered payroll for members and 14% for employers. The Center's contributions to STRS for the years ended June 30, 2013, 2012, and 2011 were \$1,068,756, \$962,923, and \$950,720, respectively; 93% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011.

Note 9- Post Employment Benefits

School Employees Retirement System of Ohio

Plan Description

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

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation was 0.74%. Center contributions for the year ended June 30, 2013, 2012 and 2011 were \$13,331, \$11,353 and \$14,066, respectively, which equaled the required contributions each year.

Health Care Plan

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2013, the health care allocation was 0.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Center contributions assigned to health care for the years ended June 30, 2013, 2012, and 2011 were \$2,882, \$8,326, and \$26,466, respectively; 91% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011.

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

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

State Teachers Retirement System of Ohio

Plan Description

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

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

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2013, 2012 and 2011. The 14% employer contribution rate is the maximum rate established under Ohio law. The Center contributions for the years ended June 30, 2013, 2012, and 2011 were \$76,340, \$68,780, and \$67,909, respectively; 93% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011.

Note 10 - Contingent Liabilities

Grants

The Center receives financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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 fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2013.

Note 11 - Jointly Governed Organizations

The Lake Geauga Computer Association is a jointly governed organization consisting of 19 school districts in Lake, Geauga, Medina and Cuyahoga Counties. 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 executive committee consists of the member elected superintendents from participating school districts. The degree of control exercised by any participating school Center is limited to its voting rights as a general member of the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting and designation management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained from Lake Geauga Computer Association, 8221 Auburn Road, Painesville, OH 44077.

The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school Center is limited to its representation on the Board. In fiscal year 2013, the Center made no payments to the Council. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Independence, OH 44131.

Note 12 - Claims Servicing Pool

Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program – The Center participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a claims servicing pool, comprised of eleven members. Each member pays an administrative fee to the pool. The Plan's business and affairs are conducted by a three member Board of Directors elected from the HCBP's assembly.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 13 – CompManagement, Inc. Group Retrospective Rating Program

The Center participates in the CompManagement, Inc. Group Retrospective Rating Program, an insurance purchasing pool. The Group Retrospective Rating Plan is a voluntary performance-based incentive program sponsored by trade associations or professional organizations for state-funded employers. The program is designed to reward participants that are able to keep their claim costs below a predetermined amount. Employers continue to pay their individual premium; however they have the opportunity to receive retrospective premium adjustments at the end of each of the three evaluation periods. Group Retro is not for every employer. Employers may be assessed additional premium if they are not committed to improving workplace safety and accident prevention and/or do not take appropriate action to reduce the frequency and severity of accidents involving their employees.

Note 14 – Revenues

The Lake County Educational Service Center is funded by the State Board of Education from State funds for the cost of part (A) of the budget. Part (B) of the budget is funded \$33.44 in the following way: \$6.50 times the ADM (total number of pupils under the Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Center provides services from payments made under the State's foundation program. Simultaneously, \$32 times the sum of the ADM is paid by the State Board of Education from State funds of the Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$33.44 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

The Lake County School Financing District's source of revenue is derived from property taxes. The Lake County Treasurer collects property tax on behalf of Perry, Painesville City, Madison and Riverside taxing districts within the County. The County Auditor periodically remits to the taxing districts their portion of the taxes collected.

Note 15 - Interfund Transactions

Interfund transactions at June 30, 2013, consisted of the following interfund receivables, interfund payables, transfers in and transfers out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$17,906	\$0	\$0	\$13,937
Other Governmental Funds	0	17,906	5,859	0
Internal Service Fund	0	0	8,078	0
Total All Funds	<u>\$17,906</u>	<u>\$17,906</u>	<u>\$13,937</u>	<u>\$13,937</u>

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

Note 16 – Accountability

The following individual funds had a deficit in fund balance at year end (includes accrual entries):

<u>Other Governmental Funds:</u>	<u>Amount</u>
Public Preschool	\$7,013
Alternative School	12,857
Race to the Top	1,950
Safe Drug Free	3,457

The general fund is liable for any deficit in any funds and will provide operating transfers when cash is required, not when accruals occur. On the cash basis of accounting, no funds had deficit balances.

Note 17 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the 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:

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Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Fund Balances	General	Lake County Financing District	Other Governmental Funds	Total
Nonspendable:				
Unclaimed Monies	\$3,715	\$0	\$0	\$3,715
Total Nonspendable	<u>3,715</u>	<u>0</u>	<u>0</u>	<u>3,715</u>
Restricted for:				
Other Grants	0	0	53,742	53,742
Science Center	0	0	4,851	4,851
IDEA	0	0	17,164	17,164
Progress Project	0	0	1,007	1,007
Food Service	0	0	2,510	2,510
Lake County Financing District	0	298,389	0	298,389
Total Restricted	<u>0</u>	<u>298,389</u>	<u>79,274</u>	<u>377,663</u>
Assigned to:				
Public School Support	36,659	0	0	36,659
Encumbrances	131,612	0	0	131,612
Total Assigned	<u>168,271</u>	<u>0</u>	<u>0</u>	<u>168,271</u>
Unassigned (Deficit)	<u>803,044</u>	<u>0</u>	<u>(25,277)</u>	<u>777,767</u>
Total Fund Balance	<u>\$975,030</u>	<u>298,389</u>	<u>\$53,997</u>	<u>\$1,327,416</u>

Note 18 – Change in Accounting Principles

The Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements and GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB Statement No. 62 incorporates Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989 into GASB authoritative literature. GASB Statement No. 63 provides financial reporting guidance for deferred outflows and inflows of resources and net position.

SUPPLEMENTARY INFORMATION

Lake County Educational Service Center , Ohio
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2013

	Lake County Financing District Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$5,004,580	\$4,967,995	\$5,011,516	\$43,521
Intergovernmental	1,592,029	1,580,391	1,594,235	13,844
Total Revenues	<u>6,596,609</u>	<u>6,548,386</u>	<u>6,605,751</u>	<u>57,365</u>
Expenditures:				
Current:				
Support Services:				
General Administration	6,596,609	6,605,751	6,663,116	(57,365)
Total Expenditures	<u>6,596,609</u>	<u>6,605,751</u>	<u>6,663,116</u>	<u>(57,365)</u>
Net Change in Fund Balance	0	(57,365)	(57,365)	0
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	<u>57,365</u>	<u>57,365</u>	<u>57,365</u>	<u>0</u>
Fund Balance - End of Year	<u><u>\$57,365</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

See accompanying notes to the supplementary information.

Lake County Educational Service Center, Ohio
Notes to the Supplementary Information
For the Fiscal Year Ended June, 30, 2013

Note 1 – Budgetary Process

The Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education.

The budgetary process described below applies specifically to the Lake County Educational Service Center and is not applicable to the Lake County School Financing District Fund.

The Center has an annual appropriation for the funds of the Lake County Educational Service Center and the Treasurer uses it to set annual limits on expenditures plus encumbrances at the fund level. The appropriation is subject to changes throughout the year with the restriction that appropriations may not exceed resources by fund. The budget is employed as a management control device during the year for all funds.

The budget process described below applies to the Lake County Financing District Fund of the Lake County Educational Service Center.

Based on the requirements of Chapter 5705, Revised Code, the budgetary process described below applies specifically to the Lake County School Financing District as a special revenue fund and is not applicable to the Lake County Educational Service Center.

A budget of estimated cash receipts and disbursements is submitted to the county auditor, as secretary of the county budget commission, by January 20 of each year, for the period July 1 to June 30 fiscal year.

The county budget commission certifies its actions to the Center by March 1. As part of this certification, the Center receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the Center must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

By the June Board meeting, the temporary annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as approved by the Board and the total of expenditures and encumbrances may not exceed the appropriation totals. Any revisions that alter appropriations within a fund must be approved by the Board of Education.

Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during fiscal 2012-2013.

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

Lake County Educational Service Center, Ohio
Notes to the Supplementary Information
For The Fiscal Year Ended June, 30, 2013

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control.

Net Change in Fund Balances

	Lake County Financing District
GAAP Basis	(\$129,761)
Revenue Accruals	72,394
Expenditure Accruals	2
Budget Basis	<u><u>(\$57,365)</u></u>

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LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/ Pass-Through Grantor Program Title	Federal CFDA No.	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through the Ohio Department of Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	\$ 1,739	\$ 1,739
National School Lunch Program	10.555	6,053	6,053
Total Child Nutrition Cluster		<u>7,792</u>	<u>7,792</u>
Total U.S. Department of Agriculture		<u>7,792</u>	<u>7,792</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through the Ohio Department of Education:</i>			
Special Education Cluster:			
Special Education - Grants to States	84.027	968,009	962,877
Special Education - Preschool Grants	84.173	<u>53,143</u>	<u>65,463</u>
Total Special Education Cluster		<u>1,021,152</u>	<u>1,028,340</u>
Race to the Top	84.395	3,647	3,647
Special Education - State Personnel Development	84.323	<u>57,991</u>	<u>81,453</u>
Total U.S. Department of Education		<u>1,082,790</u>	<u>1,113,440</u>
Total Federal Assistance		<u>\$ 1,090,582</u>	<u>\$ 1,121,232</u>

The accompanying notes are an integral part of this schedule

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the Center's federal award programs. The Schedule has been prepared on the cash basis of accounting.

CFDA – Catalog of Federal Domestic Assistance



Dave Yost • Auditor of State

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

Lake County Educational Service Center
Lake County
382 Blackbrook Road
Painesville, Ohio 44077

To the Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake County Educational Service Center, Lake County, (the Center) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 14, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Center's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Center's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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*.

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801
Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361

www.auditor.state.oh.us

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

January 14, 2014



Dave Yost • Auditor of State

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

Lake County Educational Service Center
Lake County
382 Blackbrook Road
Painesville, Ohio 44077

To the Members of the Board:

Report on Compliance for Each Major Federal Program

We have audited the Lake County Educational Service Center's (the Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Lake County Educational Service Center's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the Center's major federal programs.

Management's Responsibility

The Center's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Center's compliance for each of the Center's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Center's major programs. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Lake County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

January 14, 2014

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

LAKE COUNTY EDUCATIONAL SERVICE CENTER

LAKE 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
FEBRUARY 4, 2014