



Dave Yost • Auditor of State

**LORAIN COUNTY EDUCATIONAL SERVICE CENTER
LORAIN COUNTY
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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Lorain County Educational Service Center
Lorain County
1885 Lake Avenue
Elyria, Ohio 44035

To the Board of Education:

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 Lorain County Educational Service Center, Lorain County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Educational Service 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 Educational Service 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 Educational Service 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 Lorain County Educational Service Center, Lorain County, Ohio, as of June 30, 2013, and the respective changes in financial position thereof 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*, 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 Educational Service Center's basic financial statements taken as a whole.

The budgetary comparison schedules of the General and IDEA Funds present additional analysis and are not a required part of the basic financial statements.

The Schedule of Federal Award Receipts and Expenditures also 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 also not a required part of the financial statements.

The schedules are management's responsibility and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these schedules 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, these schedules are 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 March 13, 2014, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 Educational Service 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

March 13, 2014

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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2013

Unaudited

The discussion and analysis of the Educational Service Center of Lorain County's (the Educational Service Center) financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key Financial Highlights for 2013 are as follows:

- In total, net position decreased by \$ 139,020.
- Revenues for governmental activities totaled \$ 10,543,645 in 2013, compared to \$10,489,613 in 2012. Of the 2013 total revenue, 22.0 percent consisted of general revenues while program revenues accounted for the balance of 78.0 percent.
- Program expenses totaled \$ 10,682,665 for 2013, a decrease of \$ 219,409 compared to 2012. In 2013, instructional expenses made up 25.04 percent of program expenses while support services accounted for 74.2 percent and other expenses rounded out the remaining 0.8 percent.

Using this Annual Financial Report

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2013

Unaudited

Reporting the Service Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2013?" The *Statement of Net Position* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 13. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the general fund and the IDEA fund.

Governmental Funds

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Unaudited

The Educational Service Center as a Whole

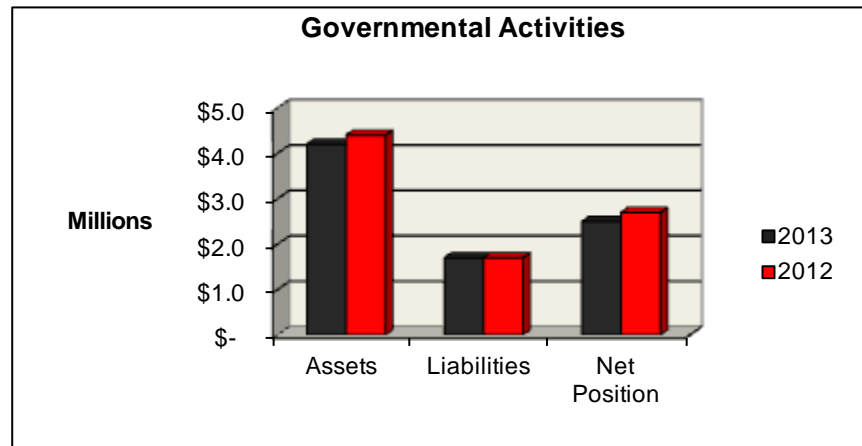
You may recall that the *Statement of Net Position* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2013 compared to 2012:

**Table 1
Net Position**

	2013	2012
Assets		
Current and other assets	\$ 3,256,173	\$ 3,366,077
Capital assets, net	961,845	1,024,427
Total assets	4,218,018	4,390,504
Liabilities		
Current liabilities and other liabilities	894,050	1,007,385
Long term liabilities		
Due within one year	136,783	190,809
Due in more than one year	677,450	543,556
Total liabilities	1,708,283	1,741,750
Net position		
Net investment in capital assets	961,845	1,024,427
Restricted	429,373	303,067
Unrestricted	1,118,517	1,321,260
Total net position	\$ 2,509,735	\$ 2,648,754

Total assets decreased by \$ 172,486, with the most significant decreases in equity in pooled cash and equivalents of \$151,839 and capital assets, net of \$62,582 offset by an increase in due from other governments of \$ 45,899. Liabilities decreased by \$ 33,467, comprised of accounts payable and contracts payable, accrued salaries and benefits, due to other governments and compensated absences.

By comparing assets and liabilities, one can see that the Educational Service Center's net position is \$ 2,509,735 and the entity is financially stable.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Unaudited

Table 2 compares the changes in net position from fiscal year 2013 to fiscal year 2012. A comparative analysis of government-wide data follows.

Table 2
Change in Net Position

	<u>2013</u>	<u>2012</u>
Revenues		
Program revenue		
Charges for services and sales	\$ 6,271,931	\$ 5,872,645
Operating grants, interest and contributions	1,938,765	1,988,385
Capital grants and contributions	9,497	-
Total program revenue	<u>8,220,193</u>	<u>7,861,030</u>
General revenue		
Grants and entitlements not restricted for specific purposes	2,221,617	2,329,239
Investment earnings	19,290	46,109
Miscellaneous	82,545	253,235
Total general revenues	<u>2,323,452</u>	<u>2,628,583</u>
Total revenues	<u>10,543,645</u>	<u>10,489,613</u>
Program expenses		
Instruction		
Regular	1,057,858	1,004,234
Special	1,618,044	1,545,760
Supporting services		
Pupil	1,647,352	1,724,573
Instructional staff	4,562,600	4,759,538
Board of education	47,395	72,087
Administration	791,048	718,149
Fiscal services	303,353	340,798
Business	378,029	326,201
Operation and maintenance	197,429	279,532
Central services	-	13,742
Operation of non-instructional services	63,269	98,572
Extracurricular activities	16,288	18,888
	<u>10,682,665</u>	<u>10,902,074</u>
Change in net position	<u>\$ (139,020)</u>	<u>\$ (412,461)</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

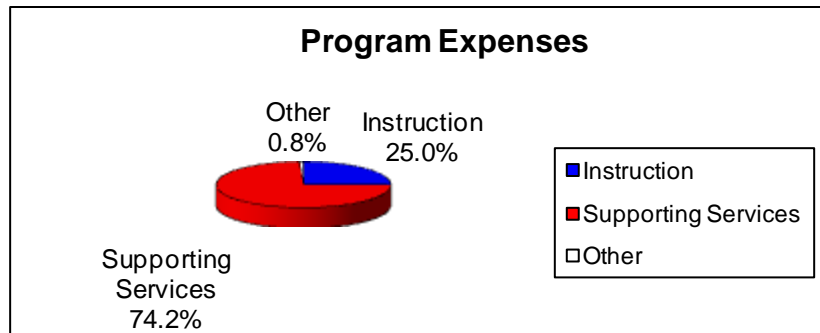
Unaudited

Governmental Activities

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The (\$ 2,462,472) Net Cost of Services 2013 tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

**Table 3
Net Cost of Services**

	Total Cost of Services 2013	Net Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2012
Governmental activities				
Instruction				
Regular	\$ 1,057,858	\$ (164,906)	\$ 1,004,234	\$ (200,930)
Special	1,618,044	(186,369)	1,545,760	(238,881)
Supporting services				
Pupil	1,647,352	(245,207)	1,724,573	(365,075)
Instructional staff	4,562,600	(304,251)	4,759,538	(590,327)
Board of education	47,395	37,605	72,087	(72,087)
Administration	791,048	(771,048)	718,149	(637,902)
Fiscal services	303,353	(303,353)	340,798	(300,798)
Business	378,029	(338,029)	326,201	(326,201)
Operation and maintenance	197,429	(197,429)	279,532	(279,532)
Central services	-	-	13,742	(13,606)
Operation of non-instructional services	63,269	26,803	98,572	3,183
Extracurricular activities	16,288	(16,288)	18,888	(18,888)
Totals	<u>\$ 10,682,665</u>	<u>\$ (2,462,472)</u>	<u>\$ 10,902,074</u>	<u>\$ (3,041,044)</u>



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Unaudited

The Educational Service Center's Funds

Information regarding the Educational Service Center's major funds can be found starting on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$ 10,353,287 and expenditures and other financing uses totaled \$ 10,519,803. The most significant fund, the General Fund had a fund balance decrease of \$ 50,688.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the Educational Service Center had \$ 961,845 invested in land, building and improvements, vehicles and furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal year 2013 values compared to 2012.

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

	2013	2012
Land	\$ 227,600	\$ 227,600
Building and improvements	658,684	691,430
Furniture and equipment	50,520	91,780
Vehicles	25,041	13,617
Total capital assets	<u>\$ 961,845</u>	<u>\$ 1,024,427</u>

All capital assets are reported at historical cost. For more information on capital assets refer to Note 9 of the basic financial statements.

Current Financial Related Activities

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

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

Contacting the Educational Service Center's Financial Management

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF NET POSITION

JUNE 30, 2013

	<u>Governmental Activities</u>
Assets	
Equity in pooled cash and cash equivalents	\$ 1,301,087
Due from other governments	1,950,274
Accrued interest receivable	4,812
Capital assets	
Nondepreciable capital assets	227,600
Depreciable capital assets, net	<u>734,245</u>
Total assets	<u>4,218,018</u>
Liabilities	
Accounts and contracts payable	18,425
Accrued salaries, wages and benefits	714,914
Due to other governments	160,711
Long term liabilities	
Due within one year	136,783
Due in more than one year	<u>677,450</u>
Total liabilities	<u>1,708,283</u>
Net position	
Net investment in capital assets	961,845
Restricted for	
Federal and state grants	416,976
Other purposes	12,397
Unrestricted	<u>1,118,517</u>
Total net position	<u>\$ 2,509,735</u>

See the accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction					
Regular	\$ 1,057,858	\$ 816,239	\$ 76,713	\$ -	\$ (164,906)
Special	1,618,044	1,102,065	327,138	2,472	(186,369)
Supporting services					
Pupil	1,647,352	1,402,145	-	-	(245,207)
Instructional staff	4,562,600	2,936,570	1,314,754	7,025	(304,251)
Board of education	47,395	-	85,000	-	37,605
Administration	791,048	-	20,000	-	(771,048)
Fiscal services	303,353	-	-	-	(303,353)
Business	378,029	-	40,000	-	(338,029)
Operation and maintenance	197,429	-	-	-	(197,429)
Operation of non-instructional services	63,269	14,912	75,160	-	26,803
Extracurricular activities	16,288	-	-	-	(16,288)
Totals	<u>\$ 10,682,665</u>	<u>\$ 6,271,931</u>	<u>\$ 1,938,765</u>	<u>\$ 9,497</u>	<u>(2,462,472)</u>
General revenues					
Grants and entitlements not restricted to specific purposes					2,221,617
Investment earnings					19,290
Miscellaneous					82,545
Total general revenues					<u>2,323,452</u>
Change in net position					(139,020)
Net position at beginning of year					<u>2,648,755</u>
Net position at end of year					<u>\$ 2,509,735</u>

See the accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2013

	General Fund	IDEA Fund	Other Governmental Funds	Total Governmental Funds
Assets and deferred outflow s of resources				
Assets				
Equity in pooled cash and cash equivalents	\$ 1,269,078	\$ -	\$ 32,009	\$ 1,301,087
Accrued interest receivable	4,812	-	-	4,812
Due from other governments	1,409,414	343,602	197,258	1,950,274
Interfund receivable	39,624	-	-	39,624
Total assets	2,722,928	343,602	229,267	3,295,797
Total assets and deferred outflow s of resources	\$ 2,722,928	\$ 343,602	\$ 229,267	\$ 3,295,797
Liabilities, deferred inflow s of resources and fund balance				
Liabilities				
Accounts and contracts payable	\$ 4,083	\$ 4,708	\$ 9,634	\$ 18,425
Accrued wages and benefits	684,677	21,893	8,344	714,914
Due to other governments	154,841	4,250	1,620	160,711
Interfund payable	-	5,919	33,705	39,624
Compensated absences payable	33,594	-	-	33,594
Total liabilities	877,195	36,770	53,303	967,268
Deferred inflow s of resources				
Unavailable resources	-	316,054	131,143	447,197
Fund balances				
Restricted	-	-	53,324	53,324
Assigned	186,463	-	-	186,463
Unassigned (deficit)	1,659,270	(9,222)	(8,503)	1,641,545
Total fund balances	1,845,733	(9,222)	44,821	1,881,332
Total liabilities, deferred inflow s of resources and fund balance	\$ 2,722,928	\$ 343,602	\$ 229,267	\$ 3,295,797

See the accompanying Notes to the Basic Financial Statements.

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

JUNE 30, 2013

Total governmental funds balances	\$ 1,881,332
Amount 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 not reported in the funds.	961,845
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to intergovernmental revenue.	447,197
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	<u>(780,639)</u>
Net position of governmental activities	<u>\$ 2,509,735</u>

See the accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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

FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	IDEA Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Tuition and fees	\$ 4,541,525	\$ -	\$ 3,634	\$ 4,545,159
Interest	19,290	-	-	19,290
Intergovernmental	2,369,357	815,145	786,848	3,971,350
Charges for services	1,726,772	-	-	1,726,772
Other	39,720	-	42,826	82,546
Total revenues	8,696,664	815,145	833,308	10,345,117
Expenditures				
Current				
Instruction				
Regular	913,426	-	73,174	986,600
Special	1,268,200	-	322,166	1,590,366
Supporting services				
Pupil	1,615,580	-	3,217	1,618,797
Instructional staff	3,415,196	775,737	364,468	4,555,401
Board of education	47,395	-	-	47,395
Administration	651,004	81,429	34,765	767,198
Fiscal services	294,864	-	6,584	301,448
Business	327,422	39,850	-	367,272
Operation and maintenance	197,598	-	-	197,598
Operation of non-instructional	8,495	-	54,774	63,269
Extracurricular activities	-	-	16,288	16,288
Total expenditures	8,739,180	897,016	875,436	10,511,632
Excess (deficiency) of revenues over expenditures	(42,516)	(81,871)	(42,128)	(166,515)
Other financing sources (uses)				
Transfers-in	-	-	8,171	8,171
Transfers-out	(8,171)	-	-	(8,171)
Total other financing sources (uses)	(8,171)	-	8,171	-
Net change in fund balances	(50,687)	(81,871)	(33,957)	(166,515)
Fund balances, beginning of year	1,896,420	72,649	78,778	2,047,847
Fund balances, end of year	\$ 1,845,733	\$ (9,222)	\$ 44,821	\$ 1,881,332

See the accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2013

Net change in fund balance - total governmental funds		\$ (166,515)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital outlay	16,409	
Depreciation expense	<u>(78,991)</u>	
Total		(62,582)
<p>Revenues (intergovernmental) in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		198,529
<p>Some expenses (compensated absences) reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.</p>		
		<u>(108,451)</u>
Change in net position of governmental activities		<u>\$ (139,019)</u>

See the accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

JUNE 30, 2013

	<u>Agency Funds</u>
Assets	
Equity in pooled cash and cash equivalents	\$ 998,748
Cash and cash equivalents in segregated accounts	10,896,623
Interest receivable	801
Total assets	<u><u>11,896,172</u></u>
Liabilities	
Accounts payable	104
Due to others	11,894,257
Noncurrent liabilities:	
Due in over one year	1,811
Total liabilities	<u><u>\$ 11,896,172</u></u>

See the accompanying Notes to the Basic Financial Statements.

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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's facility and staff who provide services to 44,049 students in local, city and exempted village school districts in Lorain County.

REPORTING ENTITY

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

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

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

B. BASIS OF PRESENTATION

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

The Educational Service 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.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION (continued)

Government-wide Financial Statements

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

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

Fund Financial Statements

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

C. FUND ACCOUNTING

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

Governmental Funds

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

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

IDEA Fund - The IDEA Fund is used to account for federal special education grants restricted for a particular purpose.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING (continued)

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

Fiduciary Fund Type

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

D. MEASUREMENT FOCUS

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

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, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

E. BASIS OF ACCOUNTING

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

Revenues - Exchange and Non-exchange Transactions

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. As of June 30, 2013, the Educational Service Center did not have these types of transactions.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Educational Service Center, unavailable revenue is reported only on the governmental funds balance sheet and represents receivables which will not be collected within the available period. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

Expenditures/Expenses

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

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

F. CASH AND INVESTMENTS

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

During fiscal year 2013, investments were limited to certificates of deposit, STAR Ohio (the State Treasurer's Investment Pool), treasury notes, and federal agency securities. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS (continued)

The Educational Service Center invested funds in the 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 the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2013.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2013, the General Fund and NCCO received \$ 19,290 and \$ 8,394 in interest income, respectively.

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

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. At June 30, 2013, the Educational Service Center did not have any prepaids.

H. CAPITAL ASSETS

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

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

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. INTERFUND BALANCES

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

J. COMPENSATED ABSENCES

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

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

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

K. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

L. INTERFUND TRANSACTIONS

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. NET POSITION

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The government-wide statement of net position reports \$ 429,373 as restricted, none of which is restricted by enabling legislation.

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

N. FUND BALANCE

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

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Educational Service Center has no committed fund balances.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the Board of Education.

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. FUND BALANCE (continued)

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

O. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Educational Service Center and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2013.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2013, the Educational Service Center has implemented Governmental Accounting Standard Board (GASB) Statement No. 60 “Accounting and Financial Reporting for Service Concession Arrangements,” Statement No. 61 “The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34,” Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,” Statement No. 63 “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,” GASB Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions,” and Statement No. 65 “Items Previously Reported as Assets and Liabilities.”

GASB Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements.” The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the Educational Service Center. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 61, “The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34.” The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE (continued)

GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the Educational Service Center. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the Educational Service Center. The Educational Service Center's financial statements have been updated to reflect the implementation of this standard.

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions." The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011 and have been implemented by the Educational Service Center. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the Educational Service Center.

NOTE 3 - DEFICIT FUND BALANCE

At June 30, 2013, the following non-major funds had deficit fund balances; the Public Preschool Fund of \$ 1,882, the Teach Ohio Fund of \$5,198, English Proficiency Fund of \$1,423 and the IDEA of \$ 9,222, which is a major fund. The General Fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 4 – FUND BALANCE

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

Fund Balance	General Fund	IDEA Fund	Other Governmental Funds	Total
Restricted for				
Other grants	\$ -	\$ -	\$ 12,397	\$ 12,397
Miscellaneous State Grants	-	-	28,603	28,603
Miscellaneous Federal Grants	-	-	2,345	2,345
Title VI R	-	-	6,757	6,757
Title I	-	-	3,222	3,222
Total restricted	<u>-</u>	<u>-</u>	<u>53,324</u>	<u>53,324</u>
Assigned for				
Early learning center	12,679	-	-	12,679
Other purpose	173,784	-	-	173,784
Total assigned	<u>186,463</u>	<u>-</u>	<u>-</u>	<u>186,463</u>
Unassigned (Deficit)	1,659,270	(9,222)	(8,503)	1,641,545
Total all fund balances	<u>\$ 1,845,733</u>	<u>\$ (9,222)</u>	<u>\$ 44,821</u>	<u>\$ 1,881,332</u>

NOTE 5 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

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

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

B. DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the Educational Service Center's deposits may not be returned. The Educational Service Center does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$ 3,988,340 and the bank balance was \$ 4,358,599. Of the bank balance, \$ 3,010,336 was covered by federal depository insurance and \$ 1,348,263 was collateralized with securities held by the pledging institution's trust department not in the Educational Service Center's name.

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Educational Service Center does not have an investment policy for custodial credit risk. As of June 30, 2013, the Educational Service Center had the following investments and maturities:

Investment Type	Fair Value	1 Year or less	2 Years	3 Years	4 Years	5 Years
StarOhio	\$ 273,029	\$ 273,029	\$ -	\$ -	\$ -	\$ -
US Treasury	181,496	166,509	14,987	-	-	-
FHLB	2,815,569	60,529	185,072	624,968	200,000	1,745,000
FHLMC	20,011	-	20,011	-	-	-
FNMA	2,495,747	136,983	60,099	214,447	300,000	1,784,218
FFCB	2,735,196	34,993	600,095	800,030	1,100,078	200,000
FMCC	187,139	172,138	15,001	-	-	-
Freddie Mac Discount Note	409,947	409,947	-	-	-	-
Fannie Mae Discount Note	89,984	89,984	-	-	-	-
	<u>\$ 9,208,118</u>	<u>\$ 1,344,112</u>	<u>\$ 895,265</u>	<u>\$ 1,639,445</u>	<u>\$ 1,600,078</u>	<u>\$ 3,729,218</u>

D. INTEREST RATE RISK

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

E. CREDIT RISK

The Educational Service Center follows the Ohio Revised Code that limits its investment choices. The Educational Service Center has no investment policy that would further limit its investment choices. The Educational Service Center's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio a rating of AAAM.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

F. CONCENTRATION OF CREDIT RISK

The Educational Service Center's places no limit on the amount that may be invested to any one issuer. The following table includes the percentage of total of each investment type held by the Educational Service Center at June 30, 2013:

Investment Type	Fair Value	of Total
StarOhio	\$ 273,029	2.97%
US Treasury	181,496	1.97%
FHLB	2,815,569	30.58%
FHLMC	20,011	0.22%
FNMA	2,495,747	27.10%
FFCB	2,735,196	29.70%
FMCC	187,139	2.03%
Freddie Mac Discount Note	409,947	4.45%
Fannie Mae Discount Note	89,984	0.98%
	<u>\$ 9,208,118</u>	<u>100.00%</u>

NOTE 6 - RECEIVABLES

Receivables at June 30, 2013, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds and all receivables will be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental activities:	Amount
Major funds	
General fund	\$ 1,409,414
IDEA	343,602
Non-major funds	
Public preschool	20,992
Miscellaneous state grants	48,969
Teach Ohio	5,199
Title I	64,424
Preschool disabilities	20,997
Miscellaneous federal grants	21,638
Title VI R	10,753
Limited english proficiency	4,286
Total due from other governments	<u>\$ 1,950,274</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 7 - STATE FUNDING

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$37.00 for each of the 44,049 students who are provided services. In addition to the \$37.00, the Educational Service Center receives \$6.50 per pupil from school districts served and a prorated supervisory cost to the Educational Service Center. These payments are received through the State's foundation program. The Educational Service Center also receives unit funding from the State Department of Education to partially fund its pre-school special education program and the gifted and talented program.

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

NOTE 8 - JOINTLY GOVERNED ORGANIZATIONS

A. NORTH COAST COUNCIL OHIO (NCCO)

The North Coast Council Ohio (NCCO) is a jointly governed organization comprised of 31 school districts. NCCO was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions for member districts. Each of the governments of these districts supports NCCO based upon a per pupil charge, dependent upon the software package utilized. The NCCO assembly consists of a superintendent or designated representative from each participating district, and a representative from the fiscal agent. NCCO is governed by a board of directors chosen from the general membership of the NCCO assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Fiscal information for NCCO is available from the Treasurer of the Educational Service Center of Cuyahoga County (fiscal agent), located at 5700 West Canal, Valley View, Ohio 44125. During the year ended June 30, 2013, the Educational Service Center paid \$ 1,358,538 to NCCO for basic service charges.

Effective July 1, 2012, LEECA merged to form NCCO and Educational Service Center of Lorain County will discontinue acting as their fiscal agent. All funds belonging to the former LEECA, now NCCO, will be transitioned over to the ESC of Cuyahoga County by the end of fiscal year 2014.

B. LAKE ERIE REGIONAL COUNCIL (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of ten school districts. The jointly governed organization currently exist for the purpose of health insurance for its participating districts. Payments are made monthly for premiums by the ten member districts as established and approved by the Board of Directors. LERC is governed by a board of directors which consists of a superintendent, treasurer or designated representative from each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County at 1885 Lake Avenue, Elyria, Ohio.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 8 - JOINTLY GOVERNED ORGANIZATIONS (continued)

C. STATE SUPPORT TEAM

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

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

NOTE 9 - CAPITAL ASSETS

Capital asset activity during fiscal year 2013 is as follows:

Governmental Activities	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
Nondepreciable capital assets				
Land	\$ 227,600	\$ -	\$ -	\$ 227,600
Depreciable capital assets				
Buildings and improvements	1,123,393	-	-	1,123,393
Furniture, fixtures and equipment	680,283	-	-	680,283
Vehicles	39,755	16,409	-	56,164
Total capital assets being depreciated	<u>1,843,431</u>	<u>16,409</u>	<u>-</u>	<u>1,859,840</u>
Less accumulated depreciation				
Buildings and improvements	(431,963)	(32,746)	-	(464,709)
Furniture, fixtures and equipment	(588,503)	(41,260)	-	(629,763)
Vehicles	(26,138)	(4,985)	-	(31,123)
Total accumulated depreciation	<u>(1,046,604)</u>	<u>(78,991)</u>	<u>-</u>	<u>(1,125,595)</u>
Depreciable capital assets, net of accumulated depreciation	<u>796,827</u>	<u>(62,582)</u>	<u>-</u>	<u>734,245</u>
Governmental activities capital assets, net	<u>\$ 1,024,427</u>	<u>\$ (62,582)</u>	<u>\$ -</u>	<u>\$ 961,845</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	2,855
Special		2,164
Supporting services		
Pupils		668
Instructional staff		48,473
Administration		1,925
Business		6,167
Operations and maintenance		16,739
Total depreciation expense	\$	<u>78,991</u>

NOTE 10 - RISK MANAGEMENT

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

For fiscal year 2013, the Educational Service Center participated in the Sheakley Workers' Compensation Group rating Program. The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Participation in the program is limited to members that can meet the program's selection criteria. The members apply for participation each year. Sheakley Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 11 - DEFINED BENEFIT PENSION PLAN

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM

Plan Description - The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent 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 Educational Service Center's contribution to SERS for the years ended June 30, 2013, 2012, and 2011 were \$ 207,662, \$ 346,039, and \$ 386,571, respectively; 96 percent has been contributed for 2013 and 100 percent for 2012 and 2011.

B. STATE TEACHERS RETIREMENT SYSTEM

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 11 - DEFINED BENEFIT PENSION PLAN (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (continued)

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

Funding Policy - For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2013, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012, and 2011 were \$ 681,218, \$ 668,137, and \$ 680,765, respectively; 87 percent has been contributed for 2013 and 100 percent for 2012 and 2011.

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2013, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 12 - POST EMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM

Postemployment Benefits

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

Medicare Part B Plan

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 12 - POST EMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM (continued)

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 is .75%. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$ 10,976, \$ 18,538, and \$ 20,985, respectively; 96 percent has been contributed for 2013 and 100 percent for 2012 and 2011.

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2013, the health care allocation is 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 Educational Service Center's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011, were \$ 2,373, \$ 13,594, and \$ 39,485, respectively; 96 percent has been contributed for 2013 and 100 percent for 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.

B. STATE TEACHERS RETIREMENT SYSTEM

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 12 - POST EMPLOYMENT BENEFITS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the post-employment health care. The Educational Service Center's contributions for post-employment health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$ 52,401, \$ 51,395, and \$ 52,366, respectively; 87 percent has been contributed for 2013 and 100 percent for 2012 and 2011.

NOTE 13 - EMPLOYEE BENEFITS

A. COMPENSATED ABSENCES

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

B. LIFE INSURANCE

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

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during fiscal year 2013 are as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Amounts</u> <u>Due In</u> <u>One Year</u>
Compensated absences	<u>\$ 734,365</u>	<u>\$ 334,336</u>	<u>\$ 254,468</u>	<u>\$ 814,233</u>	<u>\$ 136,783</u>

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 15 - OPERATING LEASE

The Educational Service Center is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. During 2013, expenditures for the operating lease totaled \$ 12,072.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2013.

Year ending	
June 30,	Amount
2014	\$ 14,260
2015	4,200
2016	4,200
2017	3,150
	<u>\$ 25,810</u>

NOTE 16 - CONTINGENCIES

A. GRANTS

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2013.

B. LITIGATION

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 17 - INTERFUND ACTIVITIES

Interfund balances at June 30, 2013, consist of the following individual fund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Funds:		
General Fund	\$ 39,624	\$ -
IDEA	-	5,919
Non-major Funds:		
Public preschool	-	1,104
Miscellaneous state grants	-	21,800
Teach Ohio	-	5,198
Title I	-	3,070
Title VIR	-	79
Miscellaneous federal grants	-	2,454
Total Non-major Funds	<u>-</u>	<u>33,705</u>
	<u>\$ 39,624</u>	<u>\$ 39,624</u>

NOTE 18 - TRANSFERS

During the year ended June 30, 2013, the General Fund transferred \$ 8,171 to the State Grants Fund to pay for expenditures.

SUPPLEMENTARY INFORMATION

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

FOR THE YEAR ENDED JUNE 30, 2013

GENERAL FUND				Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues and other financing sources	\$ 9,498,401	\$ 8,923,308	\$ 8,923,308	\$ -
Expenditures and other financing uses	10,072,938	9,094,360	9,094,360	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(574,537)	(171,052)	(171,052)	-
Fund balances, beginning of year	1,023,676	1,023,676	1,023,676	-
Prior year encumbrances	231,977	231,977	231,977	-
Fund balances, end of year	<u>\$ 681,116</u>	<u>\$ 1,084,601</u>	<u>\$ 1,084,601</u>	<u>\$ -</u>

IDEA FUND				Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues and other financing sources	\$ 1,055,006	\$ 1,108,588	\$ 1,108,589	\$ 1
Expenditures and other financing uses	1,055,006	1,145,667	1,145,668	(1)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	-	(37,079)	(37,079)	-
Fund balances, beginning of year	(77,517)	(77,517)	(77,517)	-
Prior year encumbrances	77,517	77,517	77,517	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ (37,079)</u>	<u>\$ (37,079)</u>	<u>\$ -</u>

The accompanying notes are an integral part of this report.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - BUDGETARY DATA

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Some funds are included in the General Fund (GAAP basis), but have a separate legally adopted budget (budget basis).

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

Net Change in Fund Balance		
	General Fund	IDEA Fund
Budget basis	\$ (171,052)	\$ (37,079)
Adjustments, increase (decrease)		
Revenue accruals	(584,813)	(293,444)
Expenditure accruals	606,997	211,573
Encumbrances	121,732	37,079
Funds budgeted separately	(23,552)	-
GAAP basis, as reported	<u>\$ (50,688)</u>	<u>\$ (81,871)</u>

**LORAIN COUNTY EDUCATIONAL SERVICE CENTER
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE30, 2013**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Year	Federal CFDA Number	Receipts	Expenditures
U.S. Department of Education				
<i>Passed Through the Ohio Department of Education:</i>				
Special Education Cluster:				
IDEA Part B	2013	84.027	\$ 778,982	\$ 844,906
IDEA Part B	2012	84.027	243,903	243,903
Early Learning 3	2012	84.027	19,780	19,780
Subtotal IDEA Part B			<u>1,042,665</u>	<u>1,108,589</u>
IDEA Preschool	2013	84.173	73,066	68,010
IDEA Preschool	2012	84.173	30,147	30,147
Subtotal IDEA Part B			<u>103,213</u>	<u>98,157</u>
Total Special Education Cluster			<u>1,145,878</u>	<u>1,206,746</u>
Title I:				
Title I Grants to Local Educational Agencies	2013	84.010	139,802	141,155
Title I Grants to Local Educational Agencies	2012	84.010	71,785	71,785
Total Title I			<u>211,587</u>	<u>212,940</u>
Education for Homeless Children & Youth	2013	84.196	51,856	53,573
Education for Homeless Children & Youth	2012	84.196	17,830	17,830
Total Education for Homeless Children & Youth			<u>69,686</u>	<u>71,403</u>
Title IID Education Technology State Grants				
Office of Early Learning and School Readiness	2013	84.358		<u>2,454</u>
OTES State Trainer	2013	84.367	20,953	21,033
OTES State Trainer	2012	84.367	14,895	21,219
Total OTES State Trainer			<u>35,848</u>	<u>42,252</u>
Teach Ohio	2013	84.395	45,006	50,204
State Personnel Developing Grant	2013	84.323	21,536	18,338
State Personnel Developing Grant	2012	84.323	13,402	13,402
Total State Personal Developing Grant			<u>34,938</u>	<u>31,740</u>
Title III LEP	2013	84.365	22,500	18,214
Title III LEP	2012	84.365	640	640
Total Title III			<u>23,140</u>	<u>18,854</u>
Total U.S. Department of Education			<u>1,566,083</u>	<u>1,636,593</u>
Total Federal Assistance			<u>\$ 1,566,083</u>	<u>\$ 1,636,593</u>

The notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this statement.

**LORAIN COUNTY EDUCATIONAL SERVICE CENTER
LORAIN COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Lorain County Educational Service Center's federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.



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*

Lorain County Educational Service Center
Lorain County
1885 Lake Avenue
Elyria, Ohio 44035

To the Board of Education:

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 Lorain County Educational Service Center, Lorain County, Ohio (the Educational Service Center) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated March 13, 2014.

Internal Control Over Financial Reporting

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

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 Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Educational Service 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, flowing style.

Dave Yost
Auditor of State
Columbus, Ohio

March 13, 2014



Dave Yost • Auditor of State

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

Lorain County Educational Service Center
Lorain County
1885 Lake Avenue
Elyria, Ohio 44035

To the Board of Education:

Report on Compliance for Its Major Federal Program

We have audited the Lorain County Educational Service Center's (the Educational Service 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 the Lorain County Educational Service Center's major federal program for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the Educational Service Center's major federal program.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the Educational Service Center's compliance for each of the Educational Service 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 Educational Service 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 Educational Service Center's major program. However, our audit does not provide a legal determination of the Educational Service Center's compliance.

Opinion on the Major Federal Program

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

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.ohioauditor.gov

Report on Internal Control Over Compliance

The Educational Service 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 Educational Service 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 the 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 Educational Service 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

March 13, 2014

**LORAIN COUNTY EDUCATIONAL SERVICE CENTER
LORAIN COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

**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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LORAIN COUNTY EDUCATIONAL SERVICE CENTER

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 27, 2014