



Dave Yost • Auditor of State

**LORAIN COUNTY EDUCATIONAL SERVICE CENTER
LORAIN COUNTY
TABLE OF CONTENTS**

	Page
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	14
Statement of Assets and Liabilities – Agency Fund	15
Notes to the Basic Financial Statements	16
Federal Awards Receipts and Expenditures Schedule.....	43
Notes to the Federal Awards Receipts and Expenditures Schedule	44
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	45
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by Accordance With OMB Circular A-133.....	47
Schedule of Findings.....	49

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of Lorain County Educational Service Center, Lorain County, Ohio, as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and restated the June 30, 2010 fund balances of the Governmental Funds due to a change in fund structure.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2012, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The budgetary comparison for the general fund provides additional analysis that is not a required part of the basic financial statements. The federal awards receipts and expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The budgetary comparison for the general fund and the federal awards receipts and expenditure schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These schedules were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dave Yost
Auditor of State

March 19, 2012

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

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, 2011. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key Financial Highlights for 2011 are as follows:

- In total, net assets decreased by \$ 776,708.
- Revenues for governmental activities totaled \$ 10,505,592 in 2011, compared to \$10,738,433 in 2010. Of the 2011 total revenue, 23.9 percent consisted of general revenues while program revenues accounted for the balance of 75.2 percent.
- Program expenses totaled \$ 11,282,300 for 2011. An increase of \$ 436,027 compared to 2010 with instructional expenses making up the majority of this increase. For 2011, instructional expenses made up 22.4 percent of program expenses while support services accounted for 76.9 percent and other expenses rounded out the remaining 0.7 percent.

Using this Annual Financial Report

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

Unaudited

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2011?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

Unaudited

The Educational Service Center as a Whole

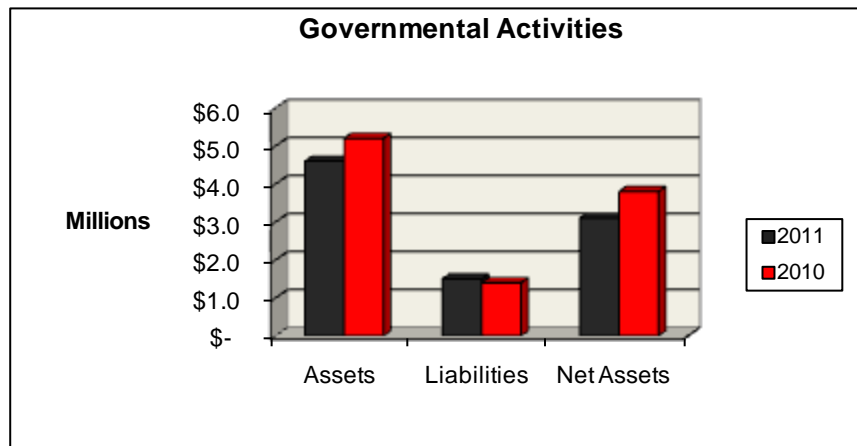
You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2011 compared to 2010:

**Table 1
Net Assets**

	2011	2010
Assets		
Current and other assets	\$ 3,490,194	\$ 4,077,836
Capital assets, net	1,098,501	1,168,037
Total assets	4,588,695	5,245,873
Liabilities		
Current liabilities and other liabilities	937,984	882,629
Long term liabilities		
Due within one year	164,116	178,816
Due in more than one year	425,380	346,505
Total liabilities	1,527,480	1,407,950
Net assets		
Invested in capital assets, net of related debt	1,098,501	1,168,037
Restricted	64,993	87,756
Unrestricted	1,897,721	2,582,130
Total net assets	\$ 3,061,215	\$ 3,837,923

Total assets decreased by \$ 657,178, with the most significant decrease in due from other governments of \$ 432,736 and equity in pooled cash and cash equivalents of \$ 149,300. Liabilities increased by \$ 119,530, comprised of accounts 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 assets is \$ 3,061,215 and the entity is financially stable.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

Unaudited

Table 2 compares the changes in net assets from fiscal year 2011 to fiscal year 2010. A comparative analysis of government-wide data follows.

Table 2
Change in Net Assets

	<u>2011</u>	<u>2010</u>
Revenues		
Program Revenue		
Charges for services and sales	\$ 5,966,801	\$ 5,931,854
Operating grants, interest and contributions	<u>1,933,469</u>	<u>2,209,851</u>
Total program revenue	<u>7,900,270</u>	<u>8,141,705</u>
General revenue		
Grants and entitlements not restricted for specific purposes	2,513,079	2,478,598
Investment earnings	61,484	88,208
Miscellaneous	<u>30,759</u>	<u>29,922</u>
Total general revenues	<u>2,605,322</u>	<u>2,596,728</u>
Total revenues	<u>10,505,592</u>	<u>10,738,433</u>
Program expenses		
Instruction		
Regular	1,198,012	807,003
Special	1,317,639	1,407,402
Supporting services		
Pupil	1,677,700	1,623,736
Instructional staff	5,072,629	5,025,553
Board of education	33,280	34,940
Administration	731,097	726,842
Fiscal services	324,920	335,485
Business	500,829	524,622
Operation and maintenance	345,908	300,538
Operation of non-instructional services	68,161	47,867
Extracurricular activities	12,125	12,264
Interest	-	21
	<u>11,282,300</u>	<u>10,846,273</u>
Change in net assets	<u>\$ (776,708)</u>	<u>\$ (107,840)</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

Unaudited

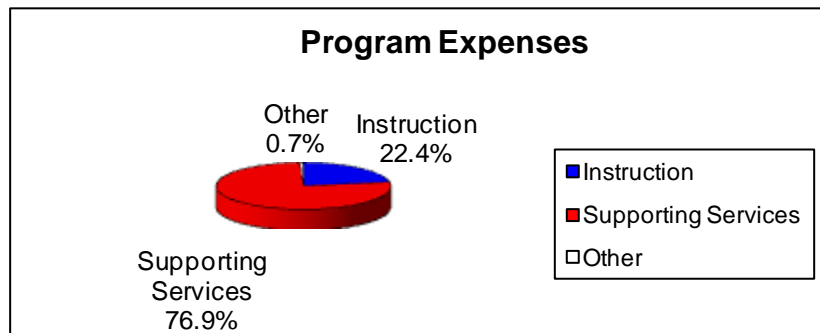
Governmental Activities

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

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The (\$ 3,382,030) Net Cost of Services 2011 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 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Governmental activities				
Instruction				
Regular	\$ 1,198,012	\$ (224,752)	\$ 807,003	\$ (127,949)
Special	1,317,639	(139,950)	1,407,402	(121,330)
Supporting services				
Pupil	1,677,700	(316,789)	1,623,736	(270,099)
Instructional staff	5,072,629	(767,070)	5,025,553	(202,611)
Board of education	33,280	(33,280)	34,940	(34,940)
Administration	731,097	(731,097)	726,842	(726,842)
Fiscal services	324,920	(324,920)	335,485	(335,485)
Business	500,829	(500,829)	524,622	(524,622)
Operation and maintenance	345,908	(345,908)	300,538	(300,538)
Central services	-	-	-	-
Operation of non-instructional services	68,161	14,690	47,867	(47,867)
Extracurricular activities	12,125	(12,125)	12,264	(12,264)
Interest	-	-	21	(21)
Totals	<u>\$ 11,282,300</u>	<u>\$ (3,382,030)</u>	<u>\$ 10,846,273</u>	<u>\$ (2,704,568)</u>



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

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 \$ 10,514,292 and expenditures and other financing uses totaled \$ 11,163,332. The most significant fund, the General Fund had a fund balance decrease of \$ 563,364.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the Educational Service Center had \$1,098,501 invested in land, building and improvements, vehicles and furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal year 2011 values compared to 2010.

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

	<u>2011</u>	<u>2010</u>
Land	\$ 227,600	\$ 227,600
Building and improvements	724,126	757,007
Furniture and equipment	135,389	165,753
Vehicles	11,386	17,677
Total capital assets	<u>\$ 1,098,501</u>	<u>\$ 1,168,037</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 local school districts and will continue to do so. While many outside factors can affect the economy, the Educational Service Center is committed to providing the best services possible and to be fiscally responsible now and in the future.

Contacting the Educational Service Center District's Financial Management

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental Activities
Assets	
Equity in pooled cash and cash equivalents	\$ 2,560,686
Due from other governments	919,956
Accrued interest receivable	9,552
Capital assets	
Nondepreciable capital assets	227,600
Depreciable capital assets, net	870,901
Total assets	<u>4,588,695</u>
Liabilities	
Accounts and contracts payable	41,154
Accrued salaries, wages and benefits	722,419
Due to other governments	174,411
Long term liabilities	
Due within one year	164,116
Due in more than one year	425,380
Total liabilities	<u>1,527,480</u>
Net assets	
Invested in capital assets, net of related debt	1,098,501
Restricted for	
Federal and state grants	31,100
Other purposes	33,893
Unrestricted	1,897,721
Total net assets	<u><u>\$ 3,061,215</u></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, 2011

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	
Governmental activities				
Instruction				
Regular	\$ 1,198,012	\$ 894,684	\$ 78,576	\$ (224,752)
Special	1,317,639	909,187	268,502	(139,950)
Supporting services				
Pupil	1,677,700	1,340,142	20,769	(316,789)
Instructional staff	5,072,629	2,791,937	1,513,622	(767,070)
Board of education	33,280	-	-	(33,280)
Administration	731,097	-	-	(731,097)
Fiscal services	324,920	-	-	(324,920)
Business	500,829	-	-	(500,829)
Operation and maintenance	345,908	-	-	(345,908)
Operation of non-instructional services	68,161	30,851	52,000	14,690
Extracurricular activities	12,125	-	-	(12,125)
Totals	<u>\$ 11,282,300</u>	<u>\$ 5,966,801</u>	<u>\$ 1,933,469</u>	<u>(3,382,030)</u>
General revenues				
Grants and entitlements not restricted to specific purposes				2,513,079
Investment earnings				61,484
Miscellaneous				30,759
Total general revenues				<u>2,605,322</u>
Change in net assets				(776,708)
Net assets at beginning of year				<u>3,837,923</u>
Net assets at end of year				<u>\$ 3,061,215</u>

See the accompanying Notes to the Basic Financial Statements

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2011

	General Fund	IDEA Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in pooled cash and cash equivalents	\$ 2,442,539	\$ 53,069	\$ 65,078	\$ 2,560,686
Accrued interest receivable	9,552	-	-	9,552
Due from other governments	711,435	132,373	76,148	919,956
Interfund receivable	168,508	-	-	168,508
Total assets	<u>\$ 3,332,034</u>	<u>\$ 185,442</u>	<u>\$ 141,226</u>	<u>\$ 3,658,702</u>
Liabilities and fund balances				
Liabilities				
Accounts and contracts payable	\$ 29,592	\$ 3,947	\$ 7,615	\$ 41,154
Accrued wages and benefits	672,382	31,271	18,766	722,419
Due to other governments	159,279	4,953	10,179	174,411
Interfund payable	-	109,544	58,964	168,508
Compensated absences payable	10,571	-	-	10,571
Total liabilities	<u>871,824</u>	<u>149,715</u>	<u>95,524</u>	<u>1,117,063</u>
Fund balances				
Restricted	-	35,727	64,993	100,720
Assigned	320,791	-	-	320,791
Unassigned (deficit)	2,139,419	-	(19,291)	2,120,128
Total fund balances	<u>2,460,210</u>	<u>35,727</u>	<u>45,702</u>	<u>2,541,639</u>
Total liabilities and fund balances	<u>\$ 3,332,034</u>	<u>\$ 185,442</u>	<u>\$ 141,226</u>	<u>\$ 3,658,702</u>

See the accompanying Notes to the Basic Financial Statements

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

JUNE 30, 2011

Total governmental funds balances	\$ 2,541,639
Amount reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	1,098,501
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	<u>(578,925)</u>
Net assets of governmental activities	<u>\$ 3,061,215</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, 2011

	General Fund	IDEA Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Tuition and fees	\$ 4,344,824	\$ -	\$ 1,755	\$ 4,346,579
Interest	61,484	-	-	61,484
Intergovernmental	2,638,124	944,141	864,283	4,446,548
Charges for services	1,614,585	-	5,780	1,620,365
Other	7,521	-	23,095	30,616
Total revenues	8,666,538	944,141	894,913	10,505,592
Expenditures				
Current				
Instruction				
Regular	1,097,490	-	82,446	1,179,936
Special	1,119,476	-	187,058	1,306,534
Supporting services				
Pupil	1,646,974	-	26,138	1,673,112
Instructional staff	3,534,986	975,809	514,643	5,025,438
Board of education	33,280	-	-	33,280
Administration	682,371	-	39,006	721,377
Fiscal services	282,909	39,099	2,101	324,109
Business	478,038	-	-	478,038
Operation and maintenance	327,365	-	-	327,365
Operation of non-instructional				
Community services	9,825	-	55,005	64,830
Day care operations	3,331	-	-	3,331
Extracurricular activities	-	-	12,125	12,125
Capital outlay	5,157	-	-	5,157
Total expenditures	9,221,202	1,014,908	918,522	11,154,632
Excess (deficiency) of revenues over expenditures	(554,664)	(70,767)	(23,609)	(649,040)
Other financing sources (uses)				
Transfers-in	-	-	8,700	8,700
Transfers-out	(8,700)	-	-	(8,700)
Total other financing sources (uses)	(8,700)	-	8,700	-
Net change in fund balances	(563,364)	(70,767)	(14,909)	(649,040)
Fund balances, beginning of year, restated	3,023,574	106,494	60,611	3,190,679
Fund balances, end of year	\$ 2,460,210	\$ 35,727	\$ 45,702	\$ 2,541,639

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, 2011

Net change in fund balance - total governmental funds \$ (649,040)

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

Governmental funds report capital outlays as expenditures. However, in the
 statement of activities, the cost of those assets 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.

	30,522	
Capital outlay		
Depreciation expense	<u>(100,058)</u>	
Total		(69,536)

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

(58,132)

Change in net assets of governmental activities

\$ (776,708)

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, 2011

	<u>Agency Funds</u>
Assets	
Equity in pooled cash and cash equivalents	\$ 2,726,191
Cash and cash equivalents in segregated accounts	10,527,605
Interest receivable	3,161
Due from other governments	208,464
Total assets	<u>13,465,421</u>
Liabilities	
Accounts payable	19,594
Accrued wages and benefits	45,795
Due to other governments	7,444
Due to others	13,230,378
Noncurrent liabilities:	
Due within one year	91,517
Due in over one year	70,693
Total liabilities	<u>\$ 13,465,421</u>

See the accompanying Notes to the Basic Financial Statements

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's facility and staff who provide services to 29,805 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 Lake Erie Educational Computer Association (LEECA), the Lake Erie Regional Council of Governments (LERC) and the Ohio Department of Education's School Support Team Region 2.

B. BASIS OF PRESENTATION

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION (continued)

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

C. FUND ACCOUNTING

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

Governmental Funds

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING (continued)

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

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

Fiduciary Fund Type

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

D. MEASUREMENT FOCUS

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

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

E. BASIS OF ACCOUNTING

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

Revenues - Exchange and Non-exchange Transactions

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

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

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

Deferred Revenue

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

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

Expenditures/Expenses

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

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

F. CASH AND INVESTMENTS

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

During fiscal year 2011, 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, 2011

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 2011. 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, 2011.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2011, the General Fund and LEECA received \$ 61,484 and \$ 28,703 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, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. At June 30, 2011, the Educational Service Center did not have any prepaids.

H. CAPITAL ASSETS

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

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

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. INTERFUND BALANCES

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

J. COMPENSATED ABSENCES

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

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

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

K. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

L. INTERFUND TRANSACTIONS

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The government-wide statement of net assets reports \$ 64,993 is restricted by enabling legislation.

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

N. FUND BALANCE

Fund balance is divided into five classifications based primarily on the extent to which the School 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 School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District 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 District has no committed fund balances.

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District 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 School District 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, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. FUND BALANCE (continued)

The School District 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 2011.

NOTE 2 - DEFICIT FUND BALANCE

At June 30, 2011, the following non-major funds had deficit fund balances; the Public Preschool Fund of \$ 10,718, the Miscellaneous State Grants Fund of \$ 881, the Miscellaneous Federal Grants Fund of \$ 504, the Preschool Disabilities Fund of \$ 3,240 and the LEP Fund of \$ 3,948. 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, 2011

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

A. CHANGE IN ACCOUNTING PRINCIPLE

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

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

GASB Statement No. 59 will update and improve existing standards regarding financial reporting and disclosure requirements by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards of certain financial instruments and external investment pools.

B. RESTATEMENT OF 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:

	<u>General Fund</u>	<u>IDEA Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund balance at				
June 30, 2010	\$ 3,007,789	\$ 106,494	\$ 76,396	\$ 3,190,679
Change in fund structure	<u>15,785</u>	<u>-</u>	<u>(15,785)</u>	<u>-</u>
Adjusted fund balance at				
June 30, 2010	<u>\$ 3,023,574</u>	<u>\$ 106,494</u>	<u>\$ 60,611</u>	<u>\$ 3,190,679</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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:

<u>Fund Balance</u>	<u>General Fund</u>	<u>IDEA Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted for				
Other grants	\$ -	\$ -	\$ 33,893	\$ 33,893
MIS	-	-	19,282	19,282
IDEA	-	35,727	-	35,727
Title I	-	-	11,818	11,818
Total restricted	<u>-</u>	<u>35,727</u>	<u>64,993</u>	<u>100,720</u>
Assigned for				
Early learning center	8,959	-	-	8,959
Daycare operations	22,766	-	-	22,766
Other purpose	289,066	-	-	289,066
Total assigned	<u>320,791</u>	<u>-</u>	<u>-</u>	<u>320,791</u>
Unassigned (Deficit)	<u>2,139,419</u>	<u>-</u>	<u>(19,291)</u>	<u>2,120,128</u>
Total all fund balances	<u>\$ 2,460,210</u>	<u>\$ 35,727</u>	<u>\$ 45,702</u>	<u>\$ 2,541,639</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).

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.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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, 2011

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 \$ 3,975,214 and the bank balance was \$ 4,300,276. Of the bank balance, \$ 2,798,942 was covered by federal depository insurance and \$ 1,501,334 was collateralized with securities held by the pledging institution's trust department not in the Educational Service Center's name.

C. INVESTMENTS

As of June 30, 2011, 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	\$ 622,519	\$ 622,519	\$ -	\$ -	\$ -	\$ -
Money Market	7,497	7,497	-	-	-	-
US Treasury	350,286	350,286	-	-	-	-
FHLB	3,201,127	400,986	1,400,141	400,000	1,000,000	-
FHLMC	1,500,692	100,692	500,000	-	-	900,000
FNMA	4,782,559	582,555	500,000	300,000	1,400,000	2,000,004
FFCB	300,268	-	-	-	200,268	100,000
FHLB Discount Note	399,955	399,955	-	-	-	-
FHLMC Discount Note	100,000	100,000	-	-	-	-
Freddie Mac Discount Note	349,675	349,675	-	-	-	-
FFCB Discount Note	124,690	124,690	-	-	-	-
FNMA Discount Note	100,000	100,000	-	-	-	-
	<u>\$ 11,839,268</u>	<u>\$ 3,138,855</u>	<u>\$ 2,400,141</u>	<u>\$ 700,000</u>	<u>\$ 2,600,268</u>	<u>\$ 3,000,004</u>

D. INTEREST RATE RISK

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

E. CREDIT RISK

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>of Total</u>
StarOhio	\$ 622,519	5.26%
Money Markets	7,497	0.06%
US Treasury	350,286	2.96%
FHLB	3,201,127	27.04%
FHLMC	1,500,692	12.68%
FNMA	4,782,559	40.40%
FFCB	300,268	2.54%
FHLB Discount Note	399,955	3.38%
FHLMC Discount Note	100,000	0.84%
Freddie Mac Discount Note	349,675	2.95%
FFCB Discount Note	124,690	1.05%
FNMA Discount Note	100,000	0.84%
	<u>\$ 11,839,268</u>	<u>100.00%</u>

NOTE 6 - RECEIVABLES

Receivables at June 30, 2011, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds and all receivables will be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental activities:</u>	<u>Amount</u>
Major funds	
General fund	\$ 711,435
Non-major funds	
Public preschool	2,583
Miscellaneous state grants	12,527
IDEA	132,373
Title I	35,215
Preschool disabilities	19,825
Miscellaneous federal grants	218
Other grants	5,780
Total due from other governments	<u>\$ 919,956</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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 29,860 students who are provided services. In addition to the \$37.00, the Educational Service Center receives \$6.50 per pupil from school districts served and a prorated supervisory cost to the Educational Service Center. These payments are received through the State's foundation program. The Educational Service Center also receives unit funding from the State Department of Education to partially fund its pre-school special education program and the gifted and talented program.

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

NOTE 8 - JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATIONAL COMPUTER ASSOCIATION (LEECA)

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

B. LAKE ERIE REGIONAL COUNCIL (LERC)

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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 2011 is as follows:

	Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011
<u>Governmental Activities</u>				
Nondepreciable capital assets				
Land	\$ 227,600	\$ -	\$ -	\$ 227,600
Depreciable capital assets				
Buildings and improvements	1,123,393	-	-	1,123,393
Furniture, fixtures and equipment	642,995	30,522	-	673,517
Vehicles	31,457	-	-	31,457
Total capital assets being depreciated	<u>1,797,845</u>	<u>30,522</u>	<u>-</u>	<u>1,828,367</u>
Less accumulated depreciation				
Buildings and improvements	(366,386)	(32,881)	-	(399,267)
Furniture, fixtures and equipment	(477,242)	(60,886)	-	(538,128)
Vehicles	(13,780)	(6,291)	-	(20,071)
Total accumulated depreciation	<u>(857,408)</u>	<u>(100,058)</u>	<u>-</u>	<u>(957,466)</u>
Depreciable capital assets, net of accumulated depreciation	<u>940,437</u>	<u>(69,536)</u>	<u>-</u>	<u>870,901</u>
Governmental activities capital assets, net	<u>\$ 1,168,037</u>	<u>\$ (69,536)</u>	<u>\$ -</u>	<u>\$ 1,098,501</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$ 5,703
Special	1,959
Supporting services	
Pupils	525
Instructional staff	50,450
Administration	6,653
Business	17,893
Operations and maintenance	16,875
Total depreciation expense	<u>\$ 100,058</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. During fiscal year 2011, 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 2011, the Educational Service Center participated in the Sheakley Workers' Compensation Group rating Program. The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. Sheakley Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 11 - DEFINED BENEFIT PENSION PLAN

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of 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, 2011, the allocation to pension and death benefits is 12.78%. The remaining 1.22% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's contribution to SERS for the years ended June 30, 2011, 2010, and 2009 were \$ 386,571, \$ 389,292, and \$ 362,305, respectively; 100 percent has been contributed for all three fiscal years.

B. STATE TEACHERS RETIREMENT SYSTEM

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2011, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$ 680,765, \$ 661,970, and \$ 637,999 respectively; 100 percent has been contributed for all three fiscal years.

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2011, 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 2011 was \$ 96.40, SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation is .76%. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$ 20,985, \$21,133, and \$ 19,409, respectively; 100 percent has been contributed for all three fiscal years.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 12 - POST EMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM (continued)

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 0.46%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, 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 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$ 39,485, \$ 12,791, and \$ 107,656, respectively; 100 percent has been contributed for all three fiscal years.

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

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

B. STATE TEACHERS RETIREMENT SYSTEM

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District’s contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$ 52,366, \$ 50,920, and \$ 49,077, respectively; 100 percent has been contributed for all three fiscal years.

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 2011 are as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Amounts</u> <u>Due In</u> <u>One Year</u>
Compensated absences	<u>\$ 525,321</u>	<u>\$ 74,746</u>	<u>\$ 10,571</u>	<u>\$ 589,496</u>	<u>\$ 164,116</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, 2011

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, and therefore, the results of the lease agreement is not reflected in the Educational Service Center's general long-term debt account group. During 2011, expenditures for the operating lease totaled \$ 12,072.

Year ending June 30,	Amount
2012	\$ 12,072
2013	12,072
2014	10,060
	<u>\$ 34,204</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, 2011.

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, 2011

NOTE 17 - INTERFUND ACTIVITIES

Interfund balances at June 30, 2011, consist of the following individual fund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Fund:		
General Fund	<u>\$ 168,508</u>	<u>\$ -</u>
Non-major Funds:		
Public preschool		929
Miscellaneous State Grants	-	11,691
IDEA	-	109,544
Title I	-	23,700
LEP	-	3,948
Miscellaneous Federal Grants	-	722
ECSE Preschool	-	17,974
Total Non-major Funds	<u>-</u>	<u>168,508</u>
	<u>\$ 168,508</u>	<u>\$ 168,508</u>

NOTE 18 - TRANSFERS

During the year ended June 30, 2011, the General Fund transferred \$8,700 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

FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues and other financing sources	\$ 8,026,780	\$ 8,781,332	\$ 8,788,262	\$ 39,989
Expenditures and other financing uses	8,964,405	9,189,626	9,194,767	(5,141)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(937,625)	(408,294)	(406,505)	34,848
Fund balances, beginning of year	2,136,228	2,136,228	2,136,228	-
Prior year encumbrances	338,690	338,690	338,690	-
Fund balances, end of year	<u>\$ 1,537,293</u>	<u>\$ 2,066,624</u>	<u>\$ 2,068,413</u>	<u>\$ 34,848</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, 2011

NOTE 1 - BUDGETARY DATA

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
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).

See accountant's compilation report.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2011

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

<u>Net Change in Fund Balance</u>	
	<u>General Fund</u>
Budget basis	\$ (406,505)
Adjustments, increase (decrease)	
Revenue accruals	(593,251)
Expenditure accruals	253,648
Encumbrances	204,020
Funds budgeted separately	<u>(21,276)</u>
GAAP basis, as reported	<u>\$ (563,364)</u>

See accountant's compilation report.

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**LORAIN COUNTY EDUCATIONAL SERVICE CENTER
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR <i>Pass Through Grantor</i>		Federal CFDA		
Program Title	Grant Year	Number	Receipts	Expenditures
U.S. DEPARTMENT OF EDUCATION				
PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Title I	2010	84.010	\$0	\$259
Title I	2011	84.010	36,420	39,562
ARRA - Title I	2010	84.389	8,588	9,375
ARRA - Title I	2011	84.389	21,265	21,265
Total Title I			<u>66,273</u>	<u>70,461</u>
Special Education Cluster				
IDEA Part B	2010	84.027	80,530	61,125
IDEA Part B	2011	84.027	863,754	920,229
Early Learning, IDEA PART B	2010	84.027	4,025	4,472
Early Learning, IDEA PART B	2011	84.027	21,997	21,997
Subtotal IDEA Part B			<u>970,306</u>	<u>1,007,823</u>
IDEA Preschool	2010	84.173	14,903	21,481
IDEA Preschool	2011	84.173	58,201	69,821
ARRA - IDEA Preschool	2010	84.392	7,256	6,928
ARRA - IDEA Preschool	2011	84.392	32,888	32,888
Subtotal IDEA Preschool			<u>113,248</u>	<u>131,118</u>
Total Special Education Cluster			<u>1,083,554</u>	<u>1,138,941</u>
Education for Homeless Children & Youth	2010	84.196	1,730	872
Education for Homeless Children & Youth	2011	84.196	39,118	51,130
ARRA - Education for Homeless Children & Youth	2010	84.387	0	6,263
ARRA - Education for Homeless Children & Youth	2011	84.387	13,527	18,771
Total Education for Homeless Children & Youth			<u>54,375</u>	<u>77,036</u>
Learn & Serve America	2011	94.004	2,415	2,633
Total Learn & Serve America			<u>2,415</u>	<u>2,633</u>
Improving Health & Educaiton	2011	93.110	10,000	10,000
Total Improving Health & Educaiton			<u>10,000</u>	<u>10,000</u>
Title III LEP	2010	84.365	(2,944)	0
Title III LEP	2011	84.365	14,318	14,318
Subtotal Title III			<u>11,374</u>	<u>14,318</u>
State Personal Developing Grant	2010	84.323	1,661	0
State Personal Developing Grant	2011	84.323	22,379	22,883
Total State Personal Developing Grant			<u>24,040</u>	<u>22,883</u>
Total U.S. Department of Education			<u>1,252,031</u>	<u>1,336,272</u>
Total Federal Financial Assistance			<u><u>\$1,252,031</u></u>	<u><u>\$1,336,272</u></u>

The accompanying notes are an integral part of this schedule.

**LORAIN COUNTY EDUCATIONAL CENTER
LORAIN COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The Center transferred the following amounts from 2010 to 2011 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2010 to 2011</u>
LEP, Title III	84.365	\$ 2,944

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated March 19, 2012.

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

Dave Yost
Auditor of State

March 19, 2012