



Dave Yost • Auditor of State



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

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lorain County Educational Service Center, Lorain County, Ohio (the Center), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lorain County Educational Service Center, Lorain County, Ohio, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

The budgetary comparison schedule of the General Fund presents additional analysis and is not a required part of the basic financial statements.

The Schedule of Federal Award Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2015, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

January 27, 2015

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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

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, 2014. 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 2014 are as follows:

- In total, net position decreased by \$ 612,900.
- Revenues for governmental activities totaled \$ 10,195,062 in 2014, compared to \$10,543,645 in 2013. Of the 2014 total revenue, 15.6 percent consisted of general revenues while program revenues accounted for the balance of 84.4 percent.
- Program expenses totaled \$ 10,807,962 for 2014, an increase of \$ 125,297 compared to 2013. In 2014, instructional expenses made up 29.0 percent of program expenses while support services accounted for 69.7 percent and other expenses rounded out the remaining 1.3 percent.

**Using this Annual Financial Report**

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

UNAUDITED

**Reporting the Service Center as a Whole**

*Statement of Net Position and the Statement of Activities*

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2014?" The *Statement of Net Position* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**Reporting the Educational Service Center's Most Significant Funds**

*Fund Financial Statements*

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

*Governmental Funds*

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

UNAUDITED

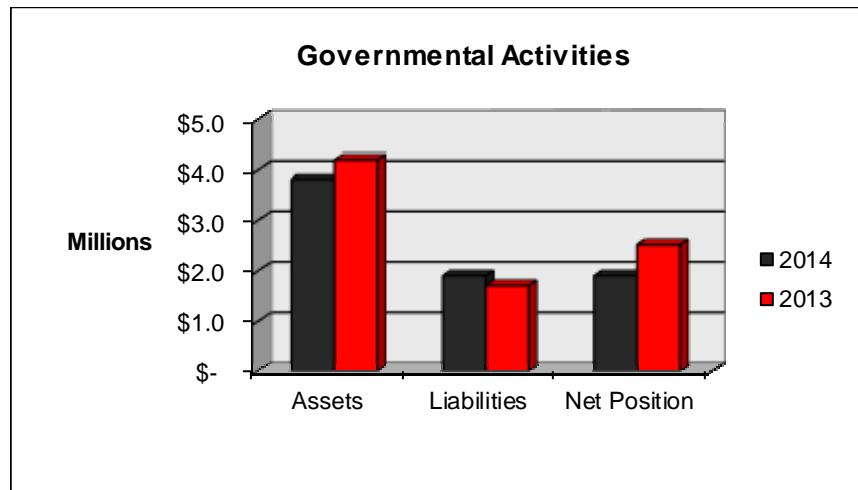
**The Educational Service Center as a Whole**

You may recall that the *Statement of Net Position* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2014 compared to 2013:

**Table 1  
Net Position**

	2014	2013
<b>Assets</b>		
Current and other assets	\$ 2,883,100	\$ 3,256,173
Capital assets, net	949,250	961,845
<b>Total assets</b>	<b>3,832,350</b>	<b>4,218,018</b>
<b>Liabilities</b>		
Current liabilities and other liabilities	1,004,524	894,050
Long term liabilities		
Due within one year	217,746	136,783
Due in more than one year	713,245	677,450
<b>Total liabilities</b>	<b>1,935,515</b>	<b>1,708,283</b>
<b>Net position</b>		
Net investment in capital assets	914,781	961,845
Restricted	69,860	429,373
Unrestricted	912,194	1,118,517
<b>Total net position</b>	<b>\$ 1,896,835</b>	<b>\$ 2,509,735</b>

Total assets decreased by \$ 385,668, with the most significant decrease in due from other governments of \$ 905,251, offset by an increase in equity in pooled cash and cash equivalents of \$ 534,553. Both are the result of the Educational Service Center's effort to collect receivables. Liabilities increased by \$ 227,232, comprised of accounts payable and contracts payable, accrued salaries and benefits, due to other governments and compensated absences. By comparing assets and liabilities, one can see that the Educational Service Center's net position is \$ 1,896,835 and the entity is financially stable.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

UNAUDITED

Table 2 compares the changes in net position from fiscal year 2014 to fiscal year 2013.

**Table 2**  
**Change in Net Position**

	<u>2014</u>	<u>2013</u>
Revenues		
Program revenue		
Charges for services and sales	\$ 7,091,774	\$ 6,271,931
Operating grants, interest and contributions	1,511,291	1,938,765
Capital grants and contributions	-	9,497
Total program revenue	<u>8,603,065</u>	<u>8,220,193</u>
General revenue		
Grants and entitlements not restricted for specific purposes	1,577,498	2,221,617
Investment earnings	13,758	19,290
Miscellaneous	741	82,545
Total general revenues	<u>1,591,997</u>	<u>2,323,452</u>
Total revenues	<u>10,195,062</u>	<u>10,543,645</u>
Program expenses		
Instruction		
Regular	1,326,967	1,057,858
Special	1,811,425	1,618,044
Supporting services		
Pupil	1,215,326	1,647,352
Instructional staff	4,752,451	4,562,600
Board of education	37,586	47,395
Administration	646,472	791,048
Fiscal services	318,021	303,353
Business	301,730	378,029
Operation and maintenance	251,799	197,429
Central services	5,218	-
Operation of non-instructional services	121,963	63,269
Extracurricular activities	15,990	16,288
Interest	3,014	-
	<u>10,807,962</u>	<u>10,682,665</u>
Change in net position	<u>\$ (612,900)</u>	<u>\$ (139,020)</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

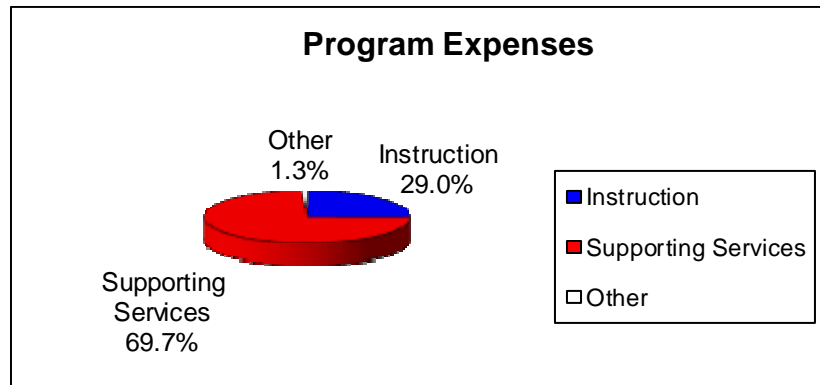
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**Governmental Activities**

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The (\$ 2,204,897) Net Cost of Services 2014 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 2014	Net Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2013
Governmental activities				
Instruction				
Regular	\$ 1,326,967	\$ (60,248)	\$ 1,057,858	\$ (164,906)
Special	1,811,425	(113,584)	1,618,044	(186,369)
Supporting services				
Pupil	1,215,326	(76,108)	1,647,352	(245,207)
Instructional staff	4,752,451	(341,452)	4,562,600	(304,251)
Board of education	37,586	(37,586)	47,395	37,605
Administration	646,472	(636,625)	791,048	(771,048)
Fiscal services	318,021	(318,021)	303,353	(303,353)
Business	301,730	(301,730)	378,029	(338,029)
Operation and maintenance	251,799	(251,799)	197,429	(197,429)
Central services	5,218	(5,218)	-	-
Operation of non-instructional services	121,963	(58,522)	63,269	26,803
Extracurricular activities	15,990	(990)	16,288	(16,288)
Interest	3,014	(3,014)	-	-
<b>Totals</b>	<b>\$ 10,807,962</b>	<b>\$ (2,204,897)</b>	<b>\$ 10,682,665</b>	<b>\$ (2,462,472)</b>



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

UNAUDITED

**The Educational Service Center's Funds**

Information regarding the Educational Service Center's major funds can be found starting on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$ 10,605,471 and expenditures and other financing uses totaled \$ 10,783,925. The most significant fund, the General Fund had a fund balance decrease of \$ 211,032.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2014, the Educational Service Center had \$ 949,250 invested in land, building and improvements, vehicles and furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal year 2014 values compared to 2013.

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

	2014	2013
Land	\$ 227,600	\$ 227,600
Building and improvements	638,832	658,684
Furniture and equipment	64,657	50,520
Vehicles	18,161	25,041
Total capital assets	<u>\$ 949,250</u>	<u>\$ 961,845</u>

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

**Current Financial Related Activities**

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

Changes made with HB59 has removed supervisory and preschool unit funding from Educational Service Centers and returned those dollars to the districts. This has required the ESC to rely, more than ever before, on district invoicing for services provided. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same.

**Contacting the Educational Service Center's Financial Management**

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in pooled cash and cash equivalents	\$ 1,835,640
Due from other governments	1,045,023
Accrued interest receivable	2,437
Capital assets	
Nondepreciable capital assets	227,600
Depreciable capital assets, net	<u>721,650</u>
Total assets	<u>3,832,350</u>
<b>Liabilities</b>	
Accounts and contracts payable	12,699
Accrued salaries, wages and benefits	823,540
Due to other governments	168,285
Long term liabilities	
Due within one year	217,746
Due in more than one year	<u>713,245</u>
Total liabilities	<u>1,935,515</u>
<b>Net position</b>	
Net investment in capital assets	914,781
Restricted for	
Federal and state grants	42,803
Other purposes	27,057
Unrestricted	912,194
Total net position	<u><u>\$ 1,896,835</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, 2014

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants Interest and Contributions	
Governmental activities				
Instruction				
Regular	\$ 1,326,967	\$ 1,192,636	\$ 74,083	\$ (60,248)
Special	1,811,425	1,519,795	178,046	(113,584)
Supporting services				
Pupil	1,215,326	1,139,218	-	(76,108)
Instructional staff	4,752,451	3,223,504	1,187,495	(341,452)
Board of education	37,586	-	-	(37,586)
Administration	646,472	-	9,847	(636,625)
Fiscal services	318,021	-	-	(318,021)
Business	301,730	-	-	(301,730)
Operation and maintenance	251,799	-	-	(251,799)
Central services	5,218	-	-	(5,218)
Operation of non-instructional services	121,963	16,621	46,820	(58,522)
Extracurricular activities	15,990	-	15,000	(990)
Interest	3,014	-	-	(3,014)
Totals	<u>\$ 10,807,962</u>	<u>\$ 7,091,774</u>	<u>\$ 1,511,291</u>	<u>(2,204,897)</u>
General revenues				
Grants and entitlements not restricted to specific purposes				1,577,498
Investment earnings				13,758
Miscellaneous				741
Total general revenues				<u>1,591,997</u>
Change in net position				(612,900)
Net position at beginning of year				<u>2,509,735</u>
Net position at end of year				<u>\$ 1,896,835</u>

See the accompanying Notes to the Basic Financial Statements.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets and deferred outflow s of resources			
Assets			
Equity in pooled cash and cash equivalents	\$ 1,768,522	\$ 67,118	\$ 1,835,640
Accrued interest receivable	2,437	-	2,437
Due from other governments	839,582	205,441	1,045,023
Interfund receivable	144,945	-	144,945
Total assets	<u>2,755,486</u>	<u>272,559</u>	<u>3,028,045</u>
Total assets and deferred outflow s of resources	<u>\$ 2,755,486</u>	<u>\$ 272,559</u>	<u>\$ 3,028,045</u>
Liabilities, deferred inflow s of resources and fund balances			
Liabilities			
Accounts and contracts payable	\$ 11,849	\$ 850	\$ 12,699
Accrued wages and benefits	787,660	35,880	823,540
Due to other governments	160,954	7,331	168,285
Interfund payable	-	144,945	144,945
Compensated absences payable	88,504	-	88,504
Total liabilities	<u>1,048,967</u>	<u>189,006</u>	<u>1,237,973</u>
Deferred inflow s of resources			
Unavailable resources	<u>71,818</u>	<u>15,376</u>	<u>87,194</u>
Fund balances			
Restricted	-	79,942	79,942
Assigned	853,404	-	853,404
Unassigned (deficit)	781,297	(11,765)	769,532
Total fund balances	<u>1,634,701</u>	<u>68,177</u>	<u>1,702,878</u>
Total liabilities, deferred inflow s of resources and fund balances	<u>\$ 2,755,486</u>	<u>\$ 272,559</u>	<u>\$ 3,028,045</u>

See the accompanying Notes to the Basic Financial Statements.

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

JUNE 30, 2014

Total governmental funds balances		\$ 1,702,878
Amount reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		949,250
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to intergovernmental revenue.		87,194
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	(808,018)	
Capital lease payable	(34,469)	
	(842,487)	(842,487)
Net position of governmental activities		\$ 1,896,835

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, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Tuition and fees	\$ 5,246,536	\$ 5,070	\$ 5,251,606
Interest	13,758	-	13,758
Intergovernmental	1,677,923	1,835,487	3,513,410
Charges for services	1,697,532	-	1,697,532
Other	14,971	56,589	71,560
<b>Total revenues</b>	<b>8,650,720</b>	<b>1,897,146</b>	<b>10,547,866</b>
<b>Expenditures</b>			
<b>Current</b>			
<b>Instruction</b>			
Regular	1,245,436	78,442	1,323,878
Special	1,567,510	220,117	1,787,627
<b>Supporting services</b>			
Pupil	1,245,516	24,676	1,270,192
Instructional staff	3,264,716	1,385,222	4,649,938
Board of education	37,586	-	37,586
Administration	613,522	43,499	657,021
Fiscal services	270,673	44,825	315,498
Business	343,406	-	343,406
Operation and maintenance	230,099	-	230,099
Pupil transportation	5,218	-	5,218
Operation of non-instructional	52,819	68,134	120,953
Extracurricular activities	-	15,990	15,990
Capital outlay	367	-	367
<b>Debt service</b>			
Principal	6,801	-	6,801
Interest	3,014	-	3,014
<b>Total expenditures</b>	<b>8,886,683</b>	<b>1,880,905</b>	<b>10,767,588</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(235,963)</b>	<b>16,241</b>	<b>(219,722)</b>
<b>Other financing sources (uses)</b>			
Transfers-in	-	16,337	16,337
Proceeds from capital leases	41,268	-	41,268
Transfers-out	(16,337)	-	(16,337)
<b>Total other financing sources (uses)</b>	<b>24,931</b>	<b>16,337</b>	<b>41,268</b>
<b>Net change in fund balances</b>	<b>(211,032)</b>	<b>32,578</b>	<b>(178,454)</b>
<b>Fund balances, beginning of year</b>	<b>1,845,733</b>	<b>35,599</b>	<b>1,881,332</b>
<b>Fund balances, end of year</b>	<b>\$ 1,634,701</b>	<b>\$ 68,177</b>	<b>\$ 1,702,878</b>

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, 2014

Net change in fund balance - total governmental funds		\$ (178,454)
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.		
	Capital outlay	50,668
	Depreciation expense	<u>(63,263)</u>
	Total	(12,595)
Revenues (intergovernmental) in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(360,004)
The issuance of debt (capital lease proceeds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		(34,469)
Some expenses (compensated absences) reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		<u>(27,378)</u>
Change in net position of governmental activities		<u>\$ (612,900)</u>

See the accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS

JUNE 30, 2014

	<u>Agency Funds</u>
Assets	
Equity in pooled cash and cash equivalents	\$ 52,934
Cash and cash equivalents in segregated accounts	10,843,400
Total assets	<u>10,896,334</u>
Liabilities	
Accounts payable	70
Due to others	10,896,264
Total liabilities	<u>\$ 10,896,334</u>

See the accompanying Notes to the Basic Financial Statements.

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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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 41,470 students in local, city and exempted village school districts in Lorain County.

REPORTING ENTITY

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

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

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

B. BASIS OF PRESENTATION

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION (continued)

Government-wide Financial Statements

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

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

Fund Financial Statements

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

C. FUND ACCOUNTING

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

Governmental Funds

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

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, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING (continued)

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

Fiduciary Fund Type

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

D. MEASUREMENT FOCUS

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

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

E. BASIS OF ACCOUNTING

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

Revenues - Exchange and Non-exchange Transactions

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. As of June 30, 2014, the Educational Service Center did not have these types of transactions.

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

Expenditures/Expenses

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

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

F. CASH AND INVESTMENTS

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

During fiscal year 2014, investments were limited to certificates of deposit, STAR Ohio (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, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS (continued)

The Educational Service Center invested funds in STAR Ohio during fiscal year 2014. 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, 2014.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2014, the General Fund received \$ 13,758 in interest income of which \$ 458 was assigned from other funds.

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 statement of fiduciary assets and liabilities 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, 2014, 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, 2014, the Educational Service Center did not have any prepaids.

H. CAPITAL ASSETS

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

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

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. INTERFUND BALANCES

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

J. COMPENSATED ABSENCES

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

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

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

K. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

L. INTERFUND TRANSACTIONS

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. NET POSITION

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The government-wide statement of net position reports \$ 69,860 as restricted, none of which is restricted by enabling legislation.

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

N. FUND BALANCE

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

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

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

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

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. FUND BALANCE (continued)

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

O. ESTIMATES

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

P. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Educational Service Center and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2014.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

GASB Statement No.66, "Technical Corrections – 2012; an amendment of GASB Statements No. 10 and No. 62." The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No.69, "Government Combinations and Disposals of Government Operations." The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term government combinations is used in this Statement to refer to a variety of arrangements including mergers and acquisitions. Government combinations also include transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." The statement provides accounting and financial reporting guidance to state and local governments that offer non-exchange financial guarantees to others and for governments that receive guarantees on their obligations. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the Educational Service Center.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 3 - DEFICIT FUND BALANCE

At June 30, 2014, the following non-major funds had deficit fund balances; the Alternative Education Challenge Fund of \$ 820, the Title I Fund of \$6,938 and the Preschool Disabilities Fund of \$ 4,007. 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.

NOTE 4 – FUND BALANCE

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

Fund Balance	General Fund	Other Governmental Funds	Total
Restricted for			
Other grants	\$ -	\$ 27,057	\$ 27,057
Miscellaneous State Grants	-	14,370	14,370
TeachOhio	-	36,526	36,526
IDEA	-	1,989	1,989
Total restricted	<u>-</u>	<u>79,942</u>	<u>79,942</u>
Assigned for			
Subsequent year appropriations	681,071	-	681,071
Early learning center	13,379	-	13,379
Other purpose	158,954	-	158,954
Total assigned	<u>853,404</u>	<u>-</u>	<u>853,404</u>
Unassigned (Deficit)	781,297	(11,765)	769,532
Total all fund balances	<u>\$ 1,634,701</u>	<u>\$ 68,177</u>	<u>\$ 1,702,878</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.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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.

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.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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.

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 \$ 3,436,918 and the bank balance was \$ 4,166,549. Of the bank balance, \$ 2,451,555 was covered by federal depository insurance and \$ 1,714,994 was collateralized with securities held by the pledging institution's trust department not in the Educational Service Center's name.

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Educational Service Center does not have an investment policy for custodial credit risk. As of June 30, 2014, the Educational Service Center had the following investments and maturities:

Investment Type	Fair Value	1 Year or less	2 Years	3 Years	4 Years	5 Years
StarOhio	\$ 273,090	\$ 273,090	\$ -	\$ -	\$ -	\$ -
US Treasury	964,394	964,394	-	-	-	-
FHLB	2,875,177	30,177	400,000	700,000	1,345,000	400,000
FHLMC	710,022	-	-	210,022	-	500,000
FNMA	1,784,748	10,124	14,847	1,550,000	209,777	-
FFCB	1,900,108	600,030	200,000	1,100,078	-	-
Agency Discount Note	159,852	159,852	-	-	-	-
Agency Notes	627,665	225,174	149,689	174,738	78,064	-
	<u>\$ 9,295,056</u>	<u>\$ 2,262,841</u>	<u>\$ 764,536</u>	<u>\$ 3,734,838</u>	<u>\$ 1,632,841</u>	<u>\$ 900,000</u>

D. INTEREST RATE RISK

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

E. CREDIT RISK

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

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, 2014:

Investment Type	Fair Value	Percent of Total
StarOhio	\$ 273,090	2.94%
US Treasury	964,394	10.38%
FHLB	2,875,177	30.93%
FHLMC	710,022	7.64%
FNMA	1,784,748	19.20%
FFCB	1,900,108	20.44%
Agency Discount Notes	159,852	1.72%
Agency Notes	627,665	6.75%
	\$ 9,295,056	100.00%

NOTE 6 - RECEIVABLES

Receivables at June 30, 2014, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds and all receivables will be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental activities:	Amount
Major funds	
General fund	\$ 839,582
Non-major funds	
Alternative education	361
Miscellaneous state grants	5,074
Teach Ohio	55,938
IDEA	99,616
Title I	18,674
Preschool disabilities	5,146
Miscellaneous federal grants	13,573
Title VI R	1,039
Limited english proficiency	6,020
Total due from other governments	\$ 1,045,023

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 7 - STATE FUNDING

The Educational Service Center receives about 25% of its funding from the Ohio Department of Education. The state provides a subsidy in a per pupil amount at the rate of \$37 per pupil before the proration factor. In addition, the Educational Service Center receives \$6.50 per pupil as a local deduction from districts aligned with the Educational Service Center.

NOTE 8 - JOINTLY GOVERNED ORGANIZATIONS

A. NORTH COAST COUNCIL OHIO (NCCO)

The North Coast Council Ohio (NCCO) is a jointly governed organization comprised of 31 school districts. NCCO was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions for member districts. Each of the governments of these districts supports NCCO based upon a per pupil charge, dependent upon the software package utilized. The NCCO assembly consists of a superintendent or designated representative from each participating district, and a representative from the fiscal agent. NCCO is governed by a board of directors chosen from the general membership of the NCCO assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Fiscal information for NCCO is available from the Treasurer of the Educational Service Center of Cuyahoga County (fiscal agent), located at 5700 West Canal, Valley View, Ohio 44125. During the year ended June 30, 2014, the Educational Service Center paid \$ 22,161 to NCCO for basic service charges.

Effective July 1, 2012, LEECA merged to form NCCO. The Educational Service Center of Lorain County ceased acting as its fiscal agent at this time. All funds belonging to the former LEECA, now NCCO, were transitioned over to NCCO by January 30, 2014. The total amount of funds plus any interest earned amounted to \$ 948,028.

B. LAKE ERIE REGIONAL COUNCIL (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of ten school districts. The jointly governed organization currently exist for the purpose of health insurance for its participating districts and the Educational Service Center. Payments are made monthly for premiums by the ten member districts as established and approved by the Board of Directors. LERC is governed by a board of directors which consists of a superintendent, treasurer or designated representative from each participating school district and the Educational Service Center. The degree of control exercised by any participating school district and the Educational Service Center 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, 2014

NOTE 9 - CAPITAL ASSETS

Capital asset activity during fiscal year 2014 is as follows:

Governmental Activities	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
Nondepreciable capital assets				
Land	\$ 227,600	\$ -	\$ -	\$ 227,600
Depreciable capital assets				
Buildings and improvements	1,123,393	9,399	-	1,132,792
Furniture, fixtures and equipment	680,283	41,269	-	721,552
Vehicles	56,164	-	-	56,164
Total capital assets being depreciated	<u>1,859,840</u>	<u>50,668</u>	<u>-</u>	<u>1,910,508</u>
Less accumulated depreciation				
Buildings and improvements	(464,709)	(29,251)	-	(493,960)
Furniture, fixtures and equipment	(629,763)	(27,132)	-	(656,895)
Vehicles	(31,123)	(6,880)	-	(38,003)
Total accumulated depreciation	<u>(1,125,595)</u>	<u>(63,263)</u>	<u>-</u>	<u>(1,188,858)</u>
Depreciable capital assets, net of accumulated depreciation	<u>734,245</u>	<u>(12,595)</u>	<u>-</u>	<u>721,650</u>
Governmental activities capital assets, net	<u>\$ 961,845</u>	<u>\$ (12,595)</u>	<u>\$ -</u>	<u>\$ 949,250</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$ 2,574
Special	2,164
Supporting services	
Pupils	507
Instructional staff	39,572
Administration	1,260
Business	4,695
Operations and maintenance	12,491
Total depreciation expense	<u>\$ 63,263</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 10 - RISK MANAGEMENT

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

For fiscal year 2014, the Educational Service Center participated in the Sheakley Workers' Compensation Group rating Program. The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Participation in the program is limited to members that can meet the program's selection criteria. The members apply for participation each year. Sheakley Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 11 - DEFINED BENEFIT PENSION PLAN

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For Fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The Educational Service Center's contribution to SERS for the years ended June 30, 2014, 2013, and 2012, were \$ 199,339, \$ 207,662, and \$ 346,039, respectively; 100 percent has been contributed for 2014, 2013 and 2012.

B. STATE TEACHERS RETIREMENT SYSTEM

Plan Description - The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://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, 2014

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, 2014, plan members were required to contribute 11 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2014, 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 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$ 669,241, \$ 681,218, and \$ 668,137, respectively; 100 percent has been contributed for 2014, 2013 and 2012.

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, 2014, 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 2014 was \$ 104.90 for most participants, but could be as high as \$ 335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 12 - POST EMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM (continued)

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation is .76 percent. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$ 10,537, \$ 10,976, and \$ 18,538, respectively; 100 percent has been contributed for 2014, 2013 and 2012.

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 percent contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is 0.14 percent. 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 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$ 20,250. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$ 2,278, \$ 2,373, and \$ 13,594, respectively; 100 percent has been contributed for 2014, 2013 and 2012.

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](http://www.ohsers.org) under Employers/Audit Resources.

B. STATE TEACHERS RETIREMENT SYSTEM

Plan Description – The Educational Service Center contributes to the cost sharing multiple employer Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://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, 2014

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 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the post-employment health care. The Educational Service Center's contributions for post-employment health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$ 51,480, \$ 52,401, and \$ 51,395, respectively; 100 percent has been contributed for 2014, 2013, and 2012.

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 – CAPITAL LEASES

The District has entered into two lease agreements as lessee for financing office equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through the capital lease are as follows:

	Cost	Accumulated Depreciation	Net
Office equipment	<u>\$ 41,268</u>	<u>\$ 491</u>	<u>\$ 40,777</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 14 – CAPITAL LEASES (continued)

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2014 were as follows:

	Year ending June 30,	Equipment
	2015	\$ 13,800
	2016	13,800
	2017	12,115
	2018	1,626
Total minimum lease payments		41,341
Less amount representing interest		6,872
Net present value of minimum lease payments		<u>\$ 34,469</u>

NOTE 15 - OPERATING LEASE

The Educational Service Center is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. During 2014, expenditures for the operating lease totaled \$ 10,060.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2014.

	Year ending June 30,	Amount
	2015	\$ 4,200
	2016	4,200
	2017	3,150
		<u>\$ 11,550</u>

NOTE 16 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during fiscal year 2014 are as follows:

	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014	Amounts Due In One Year
Capital lease	\$ -	\$ 41,268	\$ 6,799	\$ 34,469	\$ 10,197
Compensated absences	814,233	219,072	136,783	896,522	207,549
	<u>\$ 814,233</u>	<u>\$ 260,340</u>	<u>\$ 143,582</u>	<u>\$ 930,991</u>	<u>\$ 217,746</u>

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE 17 - 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, 2014.

B. LITIGATION

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

NOTE 18 - INTERFUND ACTIVITIES

The interfund payables are advances for grant monies that were not received by fiscal year end. The Educational Service Center expects to receive the grant monies within the next fiscal year, at which time the advances will be repaid.

Interfund balances at June 30, 2014, consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
Major Funds:		
General Fund	\$ 144,945	\$ -
Non-major Funds:		
Alternative education	-	820
Miscellaneous state grants	-	6,396
Teach Ohio	-	17,566
IDEA	-	81,406
LEP	-	6,020
Title I	-	4,838
Title VIR	-	1,039
ECSE preschool	-	12,077
Miscellaneous federal grants	-	14,783
Total Non-major Funds	-	144,945
	<u>\$ 144,945</u>	<u>\$ 144,945</u>

NOTE 19 - TRANSFERS

During the year ended June 30, 2014, the General Fund transferred \$ 14,732 to the State Grants Fund and \$ 1,605 to the 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, 2014

GENERAL FUND				Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues and other financing sources	\$ 8,530,739	\$ 9,272,268	\$ 9,272,270	\$ 2
Expenditures and other financing uses	9,196,485	8,871,200	8,867,663	3,537
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(665,746)	401,068	404,607	3,539
Fund balance, beginning of year	1,084,601	1,084,601	1,084,601	-
Prior year encumbrances	121,733	121,733	121,733	-
Fund balance, end of year	<u>\$ 540,588</u>	<u>\$ 1,607,402</u>	<u>\$ 1,610,941</u>	<u>\$ 3,539</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, 2014

NOTE 1 - BUDGETARY DATA

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2014

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	\$ 404,607
Adjustments, increase (decrease)	
Revenue accruals	(1,008,895)
Expenditure accruals	304,849
Encumbrances	80,997
Funds budgeted separately	7,410
GAAP basis, as reported	<u>\$ (211,032)</u>

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**LORAIN COUNTY EDUCATIONAL SERVICE CENTER  
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2014**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Year</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Expenditures</b>
<b>U.S. Department of Education</b>				
<i>Passed Through the Ohio Department of Education:</i>				
Special Education Cluster:				
IDEA Part B	2014	84.027	\$ 915,795	\$ 989,812
IDEA Part B	2013	84.027	65,020	59,101
Subtotal IDEA Part B			<u>980,815</u>	<u>1,048,913</u>
Early Learning Discretionary	2014	84.173	38,371	49,099
Early Learning Discretionary	2013	84.173	10,341	13,073
IDEA Preschool	2014	84.173	45,876	44,196
IDEA Preschool	2013	84.173	1,109	3,433
Subtotal Early Learning Discretionary and IDEA Preschool			<u>95,697</u>	<u>109,801</u>
Total Special Education Cluster			<u>1,076,512</u>	<u>1,158,714</u>
Title I Grants to Local Educational Agencies	2014	84.010	105,601	110,439
Title I Grants to Local Educational Agencies	2013	84.010	32,285	30,932
Total Title I Grants to Local Educational Agencies			<u>137,886</u>	<u>141,371</u>
Education for Homeless Children & Youth	2014	84.196	50,155	50,155
Education for Homeless Children & Youth	2013	84.196	525	525
Total Education for Homeless Children & Youth			<u>50,680</u>	<u>50,680</u>
Office of Early Learning and School Readiness	2014	84.358	10,000	7,546
OTES State Trainer	2014	84.367	7,522	8,561
OTES State Trainer	2013	84.367	6,894	6,815
Total OTES State Trainer			<u>14,416</u>	<u>15,376</u>
ARRA - Race to the Top (Teach Ohio)	2014	84.395	85,883	97,182
ARRA - Race to the Top (Teach Ohio)	2013	84.395	5,884	686
ARRA - Race to the Top (ETPS)	2014	84.395	9,891	13,575
Total ARRA - Race to the top			<u>101,658</u>	<u>111,443</u>
State Personnel Developing Grant	2014	84.323	38,117	51,690
State Personnel Developing Grant	2013	84.323	6,722	9,919
Total State Personnel Developing Grant			<u>44,839</u>	<u>61,609</u>
Title III LEP	2014	84.365	8,497	14,516
Title III LEP	2013	84.365	-	4,286
Total Title III			<u>8,497</u>	<u>18,802</u>
<b>Total U.S. Department of Education</b>			<u>1,444,488</u>	<u>1,565,541</u>
<b>Total Federal Assistance</b>			<u>\$ 1,444,488</u>	<u>\$ 1,565,541</u>

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

**LORAIN COUNTY EDUCATIONAL SERVICE CENTER  
LORAIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lorain County Educational Service Center, Lorain County, Ohio (the Center) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 27, 2015.

### ***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Center's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### ***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

January 27, 2015



# Dave Yost • Auditor of State

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

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

To the Board of Education:

### ***Report on Compliance for the Major Federal Program***

We have audited the Lorain County Educational Service Center's (the Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Lorain County Educational Service Center's major federal program for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Center's major federal program.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

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

### ***Opinion on the Major Federal Program***

In our opinion, the Lorain County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2014.

***Report on Internal Control Over Compliance***

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

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

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

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

January 27, 2015

**LORAIN COUNTY EDUCATIONAL SERVICE CENTER  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2014**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

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# Dave Yost • Auditor of State

LORAIN COUNTY EDUCATIONAL SERVICE CENTER

LORAIN COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
FEBRUARY 10, 2015