

Educational Service Center of Lorain County

Lorain County, Ohio

Single Audit

July 1, 2006 Through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

BALESTRA, HARR & SCHERER, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

Members of the Board
Lorain County Educational Service Center
1885 Lake Avenue
Elyria, Ohio 44035

We have reviewed the *Independent Auditor's Report* of the Lorain County Educational Service Center, Lorain County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lorain County Educational Service Center is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 19, 2008

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Educational Service Center of Lorain County
 Lorain County, Ohio
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Independent Auditor's Report

Members of the Board
Educational Service Center of Lorain County
1885 Lake Avenue
Elyria, Ohio 44035

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lorain County, Lorain County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2007, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

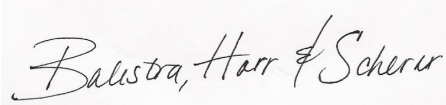
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2008 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Educational Service Center's basic financial statements. The schedule of federal awards expenditures is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

January 28, 2008

Educational Service Center of Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
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, 2007. 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 2007 are as follows:

- In total, net assets increased by \$426,355.
- Revenues for governmental activities totaled \$8,490,404 in 2007. Of this total, 22 percent consisted of general revenues while program revenues accounted for the balance of 78 percent.
- Program expenses totaled \$8,064,049. Instructional expenses made up 23 percent of this total while support services accounted for 76 percent. Other expenses rounded out the remaining 1 percent.

Using this Annual Financial Report

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

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

Educational Service Center of Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2007?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Educational Service Center of Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The Educational Service Center as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2007 compared to 2006:

Table 1
Net Assets

	<i>Governmental Activities</i>	
	<i>2007</i>	<i>2006</i>
Assets		
Current and Other Assets	\$ 5,206,286	\$ 4,864,047
Capital Assets, Net	433,422	399,686
<i>Total Assets</i>	5,639,708	5,263,733
Liabilities		
Current and Other Liabilities	757,893	811,154
Long-Term Liabilities		
Due Within One Year	137,240	158,807
Due in More than One Year	234,173	209,725
<i>Total Liabilities</i>	1,129,306	1,179,686
Net Assets		
Invested in Capital Assets, Net of Debt	424,207	386,988
Restricted for Other Purposes	425,718	247,861
Unrestricted	3,660,477	3,449,198
<i>Total Net Assets</i>	\$4,510,402	\$4,084,047

Total assets increased by \$375,975. Intergovernmental receivables increased by 356,102. Liabilities decreased by \$50,380.

By comparing assets and liabilities, one can see that in the Educational Service Center's unrestricted net assets is \$3,660,477 and the entity is financially stable.

Educational Service Center of Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Table 2 compares the changes in net assets from fiscal year 2007 to fiscal year 2006. A comparative analysis of government-wide data follows.

Table 2
Changes in Net Assets

	<i>Governmental Activities 2007</i>	<i>Governmental Activities 2006</i>
Revenues		
Program Revenues:		
Charges for Services	\$4,440,359	\$4,556,496
Operating Grants and Contributions	2,131,506	1,402,748
<i>Total Program Revenues</i>	<u>6,571,865</u>	<u>5,959,244</u>
General Revenues:		
Grants and Entitlements	1,678,154	1,756,181
Investments	230,102	187,530
Miscellaneous	10,283	8,509
<i>Total General Revenues</i>	<u>1,918,539</u>	<u>1,952,220</u>
<i>Total Revenues</i>	<u>8,490,404</u>	<u>7,911,464</u>
Program Expenses		
Instruction:		
Regular	748,951	724,122
Special	1,100,734	1,023,762
Support Services:		
Pupil	984,966	850,249
Instructional Staff	3,700,167	3,901,613
Board of Education	40,134	32,130
Administration	539,996	456,686
Fiscal	302,279	336,315
Business	524,005	420,312
Operation and Maintenance of Plant	103,277	56,906
Central	5,267	57,141
Operation of Non-Instructional Services	295	409
Extracurricular Activities	13,391	9,412
Interest and Fiscal Charges	587	766
<i>Total Program Expenses</i>	<u>8,064,049</u>	<u>7,869,823</u>
Changes in Net Assets	426,355	41,641
<i>Net Assets Beginning of Year</i>	<u>4,084,047</u>	<u>4,042,406</u>
<i>Net Assets End of Year</i>	<u><u>\$4,510,402</u></u>	<u><u>\$4,084,047</u></u>

Educational Service Center of Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Governmental Activities

A review of Table 2 reinforces the concept of sound fiscal management in the government sector generating an increase in excess of revenues over expenditures. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The \$1,492,184 Net Cost of Services 2007, tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

Table 3
Governmental Activities

	<i>Total Cost of Services 2006</i>	<i>Net Cost of Services 2006</i>	<i>Total Cost of Services 2007</i>	<i>Net Cost of Services 2007</i>
Instruction:				
Regular	\$724,122	\$43,253	\$748,951	(\$9,373)
Special	1,023,762	16,439	1,100,734	112,636
Support Services:				
Pupil	850,249	15,829	984,966	19,211
Instructional Staff	3,901,613	620,740	3,700,167	21,439
Board of Education	32,130	32,130	40,134	40,134
Administration	456,686	333,860	539,996	382,023
Fiscal	336,315	318,883	302,279	299,084
Business	420,312	420,312	524,005	524,005
Operation and Maintenance of Plant	56,906	52,795	103,277	102,282
Central	57,141	55,163	5,267	4,174
Operation of Non-Instructional Services	409	409	295	295
Extracurricular Activities	9,412	-	13,391	(4,313)
Interest and Fiscal Charges	766	766	587	587
<i>Total</i>	<u><u>\$7,869,823</u></u>	<u><u>\$1,910,579</u></u>	<u><u>\$8,064,049</u></u>	<u><u>\$1,492,184</u></u>

The Educational Service Center's Funds

Information regarding the Educational Service Center's major funds can be found on page 22&23 of the notes to the basic financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$8,078,855 and expenditures and other financing uses totaled \$8,353,212. The General Fund balance decreased \$426,612 primarily due to decreased collections from customer sales and services revenues.

Educational Service Center of Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the Educational Service Center had \$433,422 invested in land, building and improvements, vehicles and furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal year 2007 values compared to 2006.

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

	<i>Governmental Activities</i>	
	<i>2007</i>	<i>2006</i>
Land	\$50,000	\$50,000
Buildings and Improvements	499,528	493,349
Vehicles	21,763	22,229
Furniture and Fixtures	429,019	383,242
Accumulated Depreciation	(566,888)	(549,134)
<i>Totals</i>	\$433,422	\$399,686

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

Current Financial Related Activities

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

Contacting the Educational Service Center District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service center's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Mr. Tom Tomlin, Treasurer, at the Educational Service Center of Lorain County, 1885 Lake Ave., Lorain, Ohio 44035 or calling 440-327-0720.

Educational Service Center of Lorain County
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 3,758,802
Cash and Cash Equivalents with Fiscal Agent	386,554
Accrued Interest Receivable	32,873
Interfund Receivable	25,300
Intergovernmental Receivable	1,002,757
Noncurrent Assets:	
Non-Depreciable Capital Assets	50,000
Depreciable Capital Assets, net	383,422
Total Assets	<u><u>5,639,708</u></u>
 Liabilities	
Current Liabilities:	
Accounts Payable	76,838
Accrued Wages and Benefits	527,313
Intergovernmental Payable	130,914
Matured Compensated Absences Payable	22,828
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	137,240
Due in More Than One Year	234,173
Total Liabilities	<u><u>1,129,306</u></u>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	424,207
Restricted for Other Purposes	425,718
Unrestricted	3,660,477
Total Net Assets	<u><u>\$ 4,510,402</u></u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)/ Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities				
Instruction:				
Regular	\$ 748,951	\$ 654,480	\$ 103,844	\$ 9,373
Special	1,100,734	739,568	248,530	(112,636)
Support Services:				
Pupils	984,966	902,539	63,216	(19,211)
Instructional Staff	3,700,167	2,132,593	1,546,135	(21,439)
Board of Education	40,134	-	-	(40,134)
Administration	539,996	-	157,973	(382,023)
Fiscal	302,279	-	3,195	(299,084)
Business	524,005	-	-	(524,005)
Operation and Maintenance of Plant	103,277	-	995	(102,282)
Central	5,267	-	1,093	(4,174)
Operation of Non-Instructional Services	295	-	-	(295)
Extracurricular Activities	13,391	11,179	6,525	4,313
Interest and Fiscal Charges	587	-	-	(587)
Total Governmental Activities	<u>8,064,049</u>	<u>4,440,359</u>	<u>2,131,506</u>	<u>(1,492,184)</u>
General Revenues				
Grants and Entitlements not Restricted to Specific Program				1,678,154
Investment Earnings				230,102
Miscellaneous				10,283
Total General Revenues				<u>1,918,539</u>
Change in Net Assets				426,355
Net Assets Beginning of Year				<u>4,084,047</u>
Net Assets End of Year				<u>\$ 4,510,402</u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Balance Sheet
Governmental Funds
June 30, 2007

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<i>Assets</i>			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 3,309,273	\$ 449,529	\$ 3,758,802
Accrued Interest Receivable	32,873	-	32,873
Interfund Receivable	54,400	-	54,400
Intergovernmental Receivable	948,330	79,727	1,002,757
<i>Total Assets</i>	4,344,876	529,256	4,874,132
<i>Liabilities</i>			
Current Liabilities:			
Accounts Payable	61,987	14,851	76,838
Accrued Wages and Benefits	509,136	18,177	527,313
Interfund Payable	-	54,400	54,400
Intergovernmental Payable	123,158	7,756	130,914
Matured Compensated Absences Payable	22,828	-	22,828
Deferred Revenue	600,606	71,910	672,516
<i>Total Liabilities</i>	1,317,715	167,094	1,484,809
Equity:			
<i>Fund Balances</i>			
Reserved:			
Reserved for Encumbrances	217,485	11,788	229,273
Unreserved, Undesignated, Reported in:			
General Fund	2,809,676	-	2,809,676
Special Revenue Funds	-	350,374	350,374
<i>Total Fund Balances</i>	3,027,161	362,162	3,389,323
<i>Total Liabilities and Fund Balances</i>	\$ 4,344,876	\$ 529,256	\$ 4,874,132

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2007

Total Governmental Fund Balances \$3,389,323

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 433,422

Intergovernmental assets are not available to pay for current period expenditures and therefore are deferred in the funds. 672,516

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 386,554

Long-term liabilities, including capital leases payable, are not due and payable in the current period and therefore are not reported in the funds:

Compensated Absences	(362,198)	
Capital Leases Payable	(9,215)	
	(371,413)	(371,413)

Net Assets of Governmental Activities \$4,510,402

See 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 Fiscal Year Ended June 30, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	\$ 2,783,862	\$ 1,003,278	\$ 3,787,140
Interest	230,102	-	230,102
Tuition and Fees	2,455,393	288	2,455,681
Gifts and Donations	-	11,200	11,200
Customer Sales and Services	1,558,959	13,643	1,572,602
Miscellaneous	10,283	-	10,283
	7,038,599	1,028,409	8,067,008
Total Revenues			
Expenditures			
Current:			
Instruction:			
Regular	677,625	101,453	779,078
Special	862,788	273,279	1,136,067
Support Services:			
Pupils	925,644	65,058	990,702
Instructional Staff	3,555,093	259,963	3,815,056
Board of Education	40,134	-	40,134
Administration	390,322	168,992	559,314
Fiscal	306,928	3,383	310,311
Business	578,224	-	578,224
Operation and Maintenance of Plant	108,241	1,215	109,456
Central	4,000	1,267	5,267
Operation of Non-Instructional Services	295	-	295
Extracurricular Activities	-	13,391	13,391
Debt Service:			
Principal	3,483	-	3,483
Interest and Fiscal Charges	587	-	587
	7,453,364	888,001	8,341,365
Total Expenditures			
Excess of Revenues Over (Under) Expenditures			
	(414,765)	140,408	(274,357)
Other Financing Sources (Uses)			
Transfers In	-	11,847	11,847
Transfers Out	(11,847)	-	(11,847)
	(11,847)	11,847	-
Total Other Financing Sources (Uses)			
Net Change in Fund Balances			
	(426,612)	152,255	(274,357)
Fund Balances Beginning of Year			
	3,453,773	209,908	3,663,681
Fund Balances End of Year			
	\$ 3,027,161	\$ 362,163	\$ 3,389,324

See 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 Fiscal Year Ended June 30, 2007*

Net Change in Fund Balances - Total Governmental Funds (\$274,357)

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

Intergovernmental revenues in the statement of activities that do not provide
current financial resources are not reported as revenues in the funds. 423,396

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

Capital Assets - Additions	113,489	
Capital Asset - Deletions	(2,223)	
Depreciation	<u>(77,530)</u>	
<i>Total</i>		33,736

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

Capital Leases	3,483	
Compensated Absences	<u>(6,364)</u>	
<i>Total</i>		(2,881)

The internal service fund used by management to charge the costs of
health insurance is included in the statement of activities and not on the
governmental fund expenditures. This is the amount that revenues exceeded
expenses during the year. 246,461

Changes in Net Assets of Governmental Activities \$426,355

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Statement of Fund Net Assets
Proprietary Fund Type
June 30, 2007

	<i>Governmental Activities Internal Service Fund</i>
	<hr style="border-top: 1px solid black;"/>
<i>Assets</i>	
Cash and Cash Equivalents with Fiscal Agent	\$ 386,554
	<hr style="border-top: 1px solid black;"/>
<i>Total Assets</i>	<u><u>386,554</u></u>
<i>Net Assets</i>	
Unrestricted	386,554
	<hr style="border-top: 1px solid black;"/>
<i>Total Net Assets</i>	<u><u>\$ 386,554</u></u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2007

	<i>Governmental Activities Internal Service Fund</i>
<i>Operating Revenues</i>	
Charges for Services	\$ 971,501
<i>Total Operating Revenues</i>	<u>971,501</u>
<i>Operating Expenses</i>	
Purchased Services	80,860
Claims	661,020
<i>Total Operating Expenses</i>	<u>741,880</u>
<i>Operating Income</i>	<u>229,621</u>
<i>Non-Operating Revenues</i>	
Interest	16,840
<i>Total Non-Operating Revenues</i>	<u>16,840</u>
<i>Net Income</i>	246,461
<i>Net Assets at Beginning of Year</i>	<u>140,093</u>
Net Assets at End of Year	<u><u>\$ 386,554</u></u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2007

		Governmental Activities
		Internal
		Service Fund
		<hr style="border-top: 1px solid black;"/>
DECREASE IN CASH AND CASH EQUIVALENTS		
<i>Cash Flows from Operating Activities</i>		
Cash Received from Customers	\$	971,501
Cash Payments to Suppliers for Goods and Services		(80,860)
Cash Payments for Claims		(840,360)
		<hr style="border-top: 1px solid black;"/>
<i>Net Cash Used for Operating Activities</i>		50,281
		<hr style="border-top: 1px solid black;"/>
<i>Cash Flows from Investing Activities</i>		
Interest on Investments		16,840
		<hr style="border-top: 1px solid black;"/>
<i>Net Cash Provided by Investing Activities</i>		16,840
		<hr style="border-top: 1px solid black;"/>
<i>Net Decrease in Cash and Cash Equivalents</i>		67,121
<i>Cash and Cash Equivalents at Beginning of Year</i>		319,433
		<hr style="border-top: 1px solid black;"/>
<i>Cash and Cash Equivalents at End of Year</i>	\$	386,554
		<hr style="border-top: 3px double black;"/>
<i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</i>		
<i>Operating Income</i>	\$	229,621
		<hr style="border-top: 1px solid black;"/>
<i>Adjustments:</i>		
<i>Changes in Liabilities:</i>		
Decrease in Claims Payable		(179,340)
		<hr style="border-top: 1px solid black;"/>
<i>Total Adjustments</i>		(179,340)
		<hr style="border-top: 1px solid black;"/>
<i>Net Cash Used for Operating Activities</i>	\$	50,281
		<hr style="border-top: 3px double black;"/>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	<u><i>Investment Trust</i></u>	<u><i>Agency</i></u>
<i>Assets</i>		
Equity in Pooled Cash and Cash Equivalents	\$ 2,372,027	\$ 146,522
Cash and Cash Equivalents in Segregated Accounts	-	14,823,903
Accrued Interest Receivable	21,959	131,353
Intergovernmental Receivable	396,121	221,091
	<hr/>	<hr/>
<i>Total Assets</i>	<u>2,790,107</u>	<u>15,322,869</u>
<i>Liabilities</i>		
Accounts Payable	71,197	-
Accrued Wages and Benefits	40,345	-
Intergovernmental Payable	24,811	-
Due to Others	-	25,300
Undistributed Monies	-	15,297,569
	<hr/>	<hr/>
<i>Total Liabilities</i>	<u>136,353</u>	<u>15,322,869</u>
<i>Net Assets</i>		
Held in Trust for Pool Participants	2,653,754	
<i>Total Net Assets</i>	<u>\$ 2,653,754</u>	

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year June 30, 2007

	<i>Investment Trust</i>
<i>Additions</i>	
Interest	\$ 82,162
Capital Transactions	4,555,794
<i>Total Additions</i>	4,637,956
<i>Deductions</i>	
Distributions to Participants	(3,711,765)
<i>Change in Net Assets</i>	926,191
<i>Net Assets Beginning of Year</i>	1,727,563
<i>Net Assets End of Year</i>	\$ 2,653,754

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 1 - Description of the Educational Service Center

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

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's facility and staff who provide services to 29,415 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 and public entity risk pools. These organizations are presented in Notes 8 and 9 to the basic financial statements. These organizations are the Lake Erie Educational Computer Association (LEECA), Sheakley Workers Compensation Group Rating Program (WCGRP), the Lake Erie Regional Council of Governments (LERC) and the Special Education Regional Resource Center (SERRC).

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

B. Fund Accounting

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

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

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

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

Proprietary Fund Types Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service; the Educational Service Center has no enterprise funds.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis. The Educational Service Center's only internal service fund accounts for the operation of the Educational Service Center's self-insurance program for employee medical benefits.

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has an investment trust fund which is used to account for the activity of the external investment pool for the Lake Erie Educational Computer Association. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency funds are the Educational Service Center Endowment Grant Fund and the LERC Fiscal Agency Fund.

C. Measurement Focus

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

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

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

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

D. Basis of Accounting

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

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 Fiscal Year Ended June 30, 2007*

Note 2 - Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

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

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

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

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

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

E. Budgetary Data

Although not legally required, the Center adopts its budget for all 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 Center (which are appropriated by the State Department of Education to each local board of education under the supervision of the Center), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the Center's requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and the estimated revenues. The 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 levels without resolution by the Board. Throughout the year, estimated resources and appropriations may be amended or supplemented as circumstances warrant.

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

F. Cash and Cash Equivalents

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

During fiscal year 2007, investments were limited to certificates of deposit, STAR Ohio, the State Treasurer's Investment Pool, treasury notes, and federal agency securities. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center has invested funds in the State Treasury Asset Reserve of Ohio ("STAR Ohio") during fiscal year 2007. 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, 2007.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2007, the general fund, self insurance internal service fund, and LEECA investment trust fund received interest respectively; \$230,102, \$16,840, \$82,162.

The Center has \$386,554 in a bank account set aside for the self insurance program which is recorded as "Cash and Cash Equivalents with Fiscal Agents."

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

G. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center's capitalization threshold is \$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>Description</u>	<u>Estimated Lives</u>
Land Improvements	5 years
Buildings and Buildings Improvements	5 -30 years
Furniture and Fixtures	5 -10 years

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 2 - Summary of Significant Accounting Policies (continued)

H. Interfund Balances

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

I. 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 "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

J. 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

K. 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.

L. Net Assets

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

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

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 2 - Summary of Significant Accounting Policies (continued)

M. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

N. 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.

O. 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 School District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2007.

Note 3 - Deposits and Investments

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

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

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

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

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

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

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

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 3 - Deposits and Investments (continued)

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

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

Deposits:

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 \$6,284,494 and the bank balance was \$6,733,583. Of the bank balance, \$4,540,821 was covered by federal depository insurance and \$2,092,762 was collateralized with securities held by the pledging institution's trust department not in the Educational Service Center's name.

Investments:

As of June 30, 2007, the Educational Service Center had the following investments and maturities:

<i>Investment Type</i>	<i>Fair Value</i>	<i>1 Year</i>				
		<i>Or Less</i>	<i>2 Year</i>	<i>3 Years</i>	<i>4 Years</i>	<i>5 Years</i>
STAROhio	\$1,006,405	\$1,006,405	\$0	\$0	\$0	\$0
FHLB	9,711,680	0	3,215,742	2,899,119	298,125	3,298,694
FHLMC	1,674,363	0	683,640	494,293	0	496,430
FNMA	1,551,045	1,025,989	0	525,056	0	0
FHLMC Discount Note	632,553	632,553	0	0	0	0
FHLB Discount Note	109,780	109,780	0	0	0	0
Federal Farm Credit	597,188	0	199,500	397,688	0	0
<i>Totals</i>	<u>\$15,283,014</u>	<u>\$2,774,727</u>	<u>\$4,098,882</u>	<u>\$4,316,156</u>	<u>\$298,125</u>	<u>\$3,795,124</u>

The weighted average maturity of the investment is 2.71 years.

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 3 - Deposits and Investments (continued)

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.

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

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, 2007

:

<i>Investment Type</i>	<i>Fair Value</i>	<i>Percent Or Total</i>
STAROhio	\$1,006,405	6.58%
FHLB	9,711,680	63.55
FHLMC	1,674,363	10.96
FNMA	1,551,045	10.15
FHLMC Discount Note	632,553	4.14
FHLB Discount Note	109,780	.71
Federal Farm Credit	597,188	3.91
<i>Totals</i>	<i>\$15,283,014</i>	<i>100.00%</i>

Note 4 - Receivables

Receivables at June 30, 2007, 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:

<i>Governmental Activities</i>	<i>Amounts</i>
Customer Services	\$169,339
Tuition & Fees	753,691
Other Local Grants	1,500
Public Preschool	13,658
Alternative School	1,439
Title III – LEP	19,285
Miscellaneous Federal	43,845
<i>Total Intergovernmental Receivables</i>	<i>\$1,002,757</i>

Note 5 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$37.00 for each of the 29,415 students who are provided services. In addition to the \$37.00, the Educational Service Center receives \$6.50 per pupil from school districts served and a prorated supervisory cost to the Educational Service Center. These payments are received through the State's foundation program. The Educational Service Center also receives unit funding from the State Department of Education to partially fund its pre-school special education program and the gifted and talented program.

Educational Service Center of Lorain County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 5 - State Funding (continued)

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

Note 6 - External Investment Pool

By State statute, the Educational Service Center serves as fiscal agent for a legally separate entity. The Educational Service Center pools money of this entity with the Educational Service Center's for investment purposes. The Educational Service Center cannot allocate its investment between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The fair value and carrying amounts for both the internal and external investment pools are disclosed in Note 5, "Deposits and Investments". Condensed financial information for the investment pool follows:

Statement of Net Assets June 30, 2007

Assets	
Equity in Pooled Cash and Cash Equivalents	\$6,277,351
Interest Receivable	54,832
<i>Total Assets</i>	<u>\$6,332,183</u>
Net Asset Held in Trust for Pool Participants	
Internal Portion	\$3,938,197
External Portion	2,393,986
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u>\$6,332,183</u>

Statement of Changes in Net Assets For Fiscal Year Ended June 30, 2007

Revenues	
Interest	\$312,264
Expenses	
Operating Expenses	0
<i>Net Increase in Assets Resulting from Operations</i>	<u>312,264</u>
Distribution to Participants	(312,264)
Capital Transactions	(40,119)
<i>Total Decrease in Net Assets</i>	<u>(40,119)</u>
<i>Net Assets Beginning of Year</i>	<u>6,372,302</u>
<i>Net Assets End of Year</i>	<u>\$6,332,183</u>

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 7 - Jointly Governed Organizations

A. *Lake Erie Educational Computer Association (LEECA)*

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

B. *Special Education Regional Resources Center (SERRC)*

The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed operation was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The educational service center did not contribute to the SERRC during fiscal year 2007.

SERRC is governed by a governing board of fifteen school superintendents from three counties, one representative from the Health Department, one representative from Cleveland Catholic Schools and two parents of children with disabilities. The degree of control exercised by any participating school district is limited to its representation on the board. To obtain a copy of the SERRC's financial statements, write to the Educational Service Center at 1885 Lake Avenue, Elyria, Ohio 44035.

Note 8 - Public Entity Risk Pools

Claims Servicing Pool

The Educational Service Center participates in the Lake Erie Regional Council of Governments (LERC) claims servicing pool. LERC's claims servicing pool business and affairs are conducted by a Board of Directors. Each member pays a monthly premium based on their claims history. All participating members retain their risk and LERC acts as the claims servicing agent.

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 9 - Capital Assets

Capital asset activity during fiscal year 2007 is as follows:

	<i>Balance at 6/30/06</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at 6/30/07</i>
<i>Governmental Activities:</i>				
<i>Capital Assets, not depreciated:</i>				
Land	\$50,000	\$0	\$0	\$50,000
<i>Total Capital Assets, not depreciated</i>	50,000	0	0	50,000
<i>Capital Assets, being depreciated:</i>				
Building & Improvements	493,349	6,179	0	499,528
Vehicles	22,229	21,763	(22,229)	21,763
Furniture, Fixtures & Equipment	383,242	85,547	(39,770)	429,019
<i>Total Capital Assets, being depreciated</i>	898,820	113,489	(61,999)	950,310
<i>Less Accumulated Depreciation:</i>				
Building & Improvements	(201,584)	(45,389)	0	(246,973)
Vehicles	(15,560)	(4,809)	20,006	(363)
Furniture, Fixtures & Equipment	(331,990)	(27,332)	39,770	(319,552)
<i>Total Accumulated Depreciation</i>	(549,134)	(77,530)	59,776	(566,888)
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	349,686	35,959	(2,223)	383,422
<i>Governmental Activities Capital Assets, Net</i>	\$399,686	\$35,959	(\$2,223)	\$433,422

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
Regular	\$15,704
Special	3,438
<i>Support Services:</i>	
Pupils	8,491
Instructional Staff	20,924
Administration	8,708
Fiscal	3,782
Business	16,483
<i>Total Depreciation Expense</i>	\$77,530

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 10 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007 the Educational Service Center contracted with Indiana Insurance Company for general liability insurance. Leased vehicles are covered by Indiana Insurance Company and have a \$50 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.

Professional liability is protected by the Indiana Insurance Company with a \$5,000,000 annual aggregate/\$5,000,000 single occurrence limit and a \$10,000 deductible.

For fiscal year 2007 the Educational Service Center participated in the Sheakley Workers' Compensation Group rating Program. The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. Sheakley Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

Health, vision and dental insurances are available to most employees through a self-insurance internal service fund. There was no claims liability at June 30, 2007 due to the self-insurance pool changing from an individual to shared pool. Changes in claims activity for the past two fiscal years are as follows:

	<i>Balance at Beginning of Year</i>	<i>Current Year Claims</i>	<i>Claims Payments</i>	<i>Balance at End of Year</i>
2006	188,496	966,140	975,296	179,340
2007	179,340	661,020	840,360	0

Note 11 - Defined Benefit Pension Plan

A. School Employee Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$339,245, \$321,766 and \$314,109 respectively; 100 percent has been contributed for all three years.

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 11 - Defined Benefit Pension Plan (continued)

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strs.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 member contributions and earned interest matched by STRS Ohio funds times 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$590,803, \$589,862, and \$598,278 respectively; 100 percent has been contributed for all three years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007, four members of the governing board have elected Social Security. The Board's liability is 6.2 percent of wages.

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 12 - Post Employment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$42,200 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$128,913.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

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.

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 13 - Employment Benefits (continued)

B. Life Insurance

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

Note 14 - Long-Term Obligations

Changes in long-term obligations during fiscal year 2007 are as follows:

	<i>Principal Outstanding June 30, 2006</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding June 30, 2007</i>	<i>Due Within One Year</i>
Compensated Absences	\$371,836	\$156,203	(\$165,841)	\$362,198	\$133,569
Capital Leases	12,698	0	(3,483)	9,215	3,671
<i>Total Long-Term Obligations</i>	<u>\$384,534</u>	<u>\$156,203</u>	<u>(\$169,324)</u>	<u>\$371,413</u>	<u>\$137,240</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital lease payments will be paid from the general fund.

Note 15 - Capital Lease

The Educational Service Center entered into a lease agreement for equipment during the fiscal year. The Educational Service Center's lease obligation meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases". Capital lease payments have been reclassified and are reflected as debt service expenses in the basic financial statements. These expenditures are reflected as capital outlay expenditures on a budgetary basis. Capital assets acquired by lease have been capitalized as furniture, fixtures and equipment in the amount of \$17,850.

The following is a schedule of future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2007:

<i>Year Ending June 30,</i>	<i>Amount</i>
2008	\$4,070
2009	4,070
2010	1,695
<i>Total Minimum Lease Payments</i>	9,835
<i>Less Amount Representing Interest</i>	(620)
<i>Net Present Value of Minimum Lease Payments</i>	<u>\$9,215</u>

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 16 - Operating Lease

The Educational Service Center is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreement is not reflected in the Educational Service Center's general long-term debt account group. During 2007, expenditures for the operating lease totaled \$28,225. The following is a schedule of future minimum lease payments as of June 30, 2007.

<i>Year Ending June 30,</i>	<i>Amount</i>
2008	\$8,910
<i>Total Minimum Lease Payments</i>	\$8,910

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, 2007.

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 Transactions and Fund Deficits

Interfund balances at June 30, 2007, consist of the following individual fund receivables and payables:

	<i>Interfund Receivable</i>	<i>Interfund Payable</i>	<i>Transfer-In</i>	<i>Transfer-Out</i>
General	\$54,400	\$0	\$0	\$11,847
<i>Non-Major Funds</i>				
Public Preschool	0	1,000	0	0
Miscellaneous State	0	9,100	11,847	0
Title III -LEP	0	6,400	0	0
Miscellaneous Federal	0	37,900	0	0
<i>Total Non-Major Funds</i>	0	54,400	11,847	0
<i>Total – All Funds</i>	\$54,400	\$54,400	\$11,847	\$11,847

The transfers made from the general fund were made to finance various programs accounted for in the miscellaneous state fund in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the governmental-wide financials. All transfers were made in compliance with the Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Educational Service Center of Lorain County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 18 – Interfund Transactions and Fund Deficits (continued)

The following funds had fund deficits at fiscal year end; Public Preschool and Federal Preschool non-major special revenue funds for \$12,218 and, \$2,383, respectively. 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.

Lorain County Educational Service Center
Lorain County

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2007

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Special Education Cluster:						
Special Education Grants to States	6BSF	84.027	\$ 1,000,889	\$ -	\$ 1,055,208	\$ -
Special Education - Preschool Grants	PGS1	84.173	71,341	-	67,099	-
Total Special Education Cluster			1,072,230	-	1,122,307	-
Title I Grants to Local Education Agencies	C1S1	84.010	276,225	-	269,124	-
Education for Homeless Children and Youth	HCS1	84.196	44,346	-	40,723	-
Javits Gifted and Talented Education Grant Program	JGS1	84.206	8,333	-	7,130	-
Special Education - State Personnel Development	STS1	84.323	65,522	-	101,423	-
English Language Acquisition Grants	T3S1	84.365	14,399	-	22,729	-
Total United States Department of Education			1,481,055	-	1,563,436	-
Centers for Medicare and Medicaid Services						
Medical Assistance Program	N	93.778	6,177	-	-	-
Total Centers for Medicare and Medicaid Service			6,177	-	-	-
Total Federal Financial Assistance			\$ 1,487,232	\$ -	\$ 1,563,436	\$ -

N - Direct from federal agency

See accompanying notes to the Schedule of Federal Awards Expenditures

Educational Service Center of Lorain County
Notes to Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2007

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards receipts and expenditures includes the federal grant activity of the Educational Service Center of Lorain County and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – MEDICAL ASSISTANCE PROGRAM

As of July 1, 2005, the Community Alternative Funding System (CAFS) program (CFDA #93.778) no longer exists as a funding stream. All remittances subsequent to this date reflect settlements of past years. In fiscal year 2007, the Center received \$6,177 in settlements related to expenditures made in prior years.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Education
Lorain County Educational Service Center
1885 Lake Ave.
Elyria, Ohio

We have audited the accompanying financial statements of the Lorain County Educational Service Center, (the Center), as of and for the years ended June 30, 2007, and have issued our report thereon dated January 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash basis of accounting such that there is more than a remote likelihood that a misstatement of the Center's financial statements that is more than inconsequential will not be prevented or detected by the Center's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. This item is identified in the accompanying schedule of findings and responses as item 2007-001.

Board of Education

Lorain County Educational Service Center

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

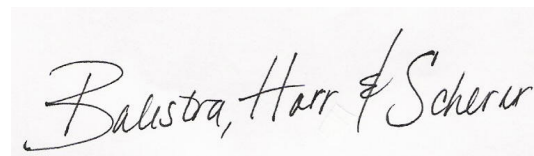
Page 2

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Center's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and members of the Board and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

January 28, 2008

BALESTRA, HARR & SCHERER, CPAs, INC.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board
Lorain County Educational Service Center
1885 Lake Ave.
Elyria, Ohio

Compliance

We have audited the compliance of the Lorain County Educational Service Center (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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 that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

Members of the Board

Lorain County Educational Service Center

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Page 2

Internal Control Over Compliance (Continued)

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Center's internal control.

Our consideration of the 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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness, as defined above.

This report is intended solely for the information and use of the management, the audit committee, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

January 28, 2008

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 SECTION .505

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
LORAIN COUNTY, OHIO
JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 SECTION .505**

**EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
LORAIN COUNTY, OHIO
JUNE 30, 2007**

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

Finding Number 2007-001

Significant Control Deficiency

Statement on Auditing Standards (SAS) No. 70, Service Organizations, is a recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). A SAS 70 audit is widely recognized, because it represents that a service organization has been through an in-depth audit of their control activities, which generally include controls over information technology and related processes. Service organizations must demonstrate that they have adequate internal controls and safeguards in place to secure processing and information of their customers.

The Service Center has an agreement with Lake Erie Regional Council (LERC), a service provider, to provide claims processing for the Service Center's self-insurance program. Under SAS 70, the Service Center should be receiving a SAS 70 report from their service organization annually. For the period under audit, a SAS 70 report was not available.

To reasonably ensure the completeness and accuracy of claims processed by LERC, a SAS 70 Tier II report which prescribes testing and reporting standards for audits of claims processing internal controls in place at the service organization should be provided. Such a report, if unqualified, would provide evidence to the Service Center's management that claims are being processed in conformance with the Service Center's health insurance plan.

Clients Response:

The Educational Service Center intends to obtain a SAS-70 report for Lake Erie Regional Council.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	

**EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-001	Service Organization Reporting – the Educational Service Center did not receive a SAS 70 report for the Lake Erie Regional Council (LERC)	No	Reissued as Finding No. 2007-001



Mary Taylor, CPA
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
APRIL 1, 2008**