



Mary Taylor, CPA
Auditor of State

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

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**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Lake County Educational Service Center
Lake County
30 South Park Place, Suite 320
Painesville, Ohio 44077

To the Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lake County Educational Service Center, Lake County, Ohio, (the Center) as of and for the year ended June 30, 2008, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lake County Educational Service Center, Lake County, Ohio, as of June 30, 2008, and the respective changes in cash financial position and the respective budgetary comparison for the General and Science Center Funds thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2009, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The Federal Awards Receipts and Expenditures Schedule presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the basic financial statements. We subjected this schedule to the auditing procedures applied in our audit of the basic financial statements. In our opinion, this information 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 "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 20, 2009

**Lake County Educational Service Center
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
(Unaudited)**

The discussion and analysis of Lake County Educational Service Center's (Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2008. The discussion and analysis is within the limitations of the Center's cash basis accounting. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center's performance.

Financial Highlights

Key financial highlights for fiscal year 2008 are as follows:

- Net assets of governmental activities increased \$406,262 which represents a 103% increase from 2007.
- General receipts accounted for \$2,831,214 in receipts or 23.2% of total receipts. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$9,348,866 or 76.8% of total receipts of \$12,180,080 .
- The Center had \$11,773,818 in disbursements related to governmental activities; \$9,348,866 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts of \$2,831,214 were also used to provide for these programs.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Government's cash basis of accounting.

Report Components

The *Statement of Net Assets and Statement of Activities* provide information about the cash activities of the Center as a whole. Fund financial statements provide the next level of detail. Funds are created and maintained on the financial records of the Center as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Center has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Center's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the Center as a Whole

The *Statement of Net Assets* and the *Statement of Activities* reflect how the Center performed financially during 2008, within the limitations of cash basis accounting. The *Statement of Net Assets* presents the cash balances and investments of the governmental activities of the Center at year-end. The *Statement of Activities* compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Center's general receipts.

These statements report the Center's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, the reader can utilize these statements as one measure of the Center's financial condition. Over time, increases or decreases in the Center's cash position is one indicator of whether the Center's financial condition is improving or deteriorating. When evaluating the Center's financial condition, the reader should also consider other nonfinancial factors as well, such as the condition of the Center's capital assets, the extent of the Center's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources.

In the Statement of Net Assets and the Statement of Activities, all of the Center's programs and services are reported as Governmental Activities.

Reporting the Center's Most Significant Funds

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

Governmental Funds -Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - The Center maintains two fiduciary funds, an agency fund and a private purpose trust fund. These activities are excluded from the Center's other financial statements because the Center cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

The Center as a Whole

As stated previously, the Statement of Net Assets looks at the Center as a whole. Table 1 provides a summary of the Center's net assets for 2008 compared to 2007:

Table 1
Net Assets

	Governmental Activities	
	2008	2007
Assets:		
Current and Other Assets	\$801,950	\$395,688
Total Assets	<u>801,950</u>	<u>395,688</u>
Net Assets:		
Restricted	280,614	257,179
Unrestricted	<u>521,336</u>	<u>138,509</u>
Total Net Assets	<u><u>\$801,950</u></u>	<u><u>\$395,688</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's net assets were \$801,950 .

A portion of the Center's net assets, \$280,614 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Total assets increased by \$406,262. The increase can be attributed to the Center's collection of receipts in a more timely manner.

Table 2 shows the changes in net assets for fiscal years 2008 and 2007.

Table 2
Changes in Net Assets

	Governmental Activities	
	2008	2007
Receipts:		
Program Cash Receipts		
Charges for Services	\$6,966,590	\$6,338,387
Operating Grants, Contributions	2,382,276	1,487,797
General Receipts:		
Grants and Entitlements	2,410,054	2,585,981
Other	421,160	140,532
Total Receipts	<u>12,180,080</u>	<u>10,552,697</u>
Cash Disbursements:		
Instruction	3,634,065	3,317,451
Support Services:		
Pupil and Instructional Staff	3,727,332	3,518,235
School Administrative, General		
Administration, and Fiscal	3,010,088	2,409,001
Operations and Maintenance	279,207	340,411
Pupil Transportation	126,584	82,040
Central	815,700	606,625
Operation of Non-Instructional Services	158,565	128,982
Extracurricular Activities	22,277	7,155
Total Disbursements	<u>11,773,818</u>	<u>10,409,900</u>
Change in Net Assets	406,262	142,797
Net Assets Beginning of Year	<u>395,688</u>	<u>252,891</u>
Net Assets End of Year	<u><u>\$801,950</u></u>	<u><u>\$395,688</u></u>

Governmental Activities

The Center revenues are mainly from two sources. Charges for services and sales and grants and entitlements comprised 77% of the Center's receipts for governmental activities.

Instruction comprises 30.9% of governmental program cash disbursements. Support services were 67.6% of governmental program cash disbursements. The remaining cash disbursements were 1.5%.

Operating Grants increased due to an increase in grant monies received. Total instruction disbursements increased mainly due to increases in personnel costs and general inflationary factors.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$3,634,065	\$3,317,451	\$697,344	\$69,757
Support Services:				
Pupil and Instructional Staff	3,727,332	3,518,235	(1,579,756)	(1,390,009)
School Administrative, General Administration, and Fiscal	3,010,088	2,409,001	(893,820)	(844,577)
Operations and Maintenance	279,207	340,411	(129,699)	(110,505)
Pupil Transportation	126,584	82,040	(62,313)	(33,505)
Central	815,700	606,625	(389,547)	(247,786)
Operation of Non-Instructional Services	158,565	128,982	(77,715)	(52,837)
Extracurricular Activities	22,277	7,155	10,554	25,746
Total Disbursements	<u>\$11,773,818</u>	<u>\$10,409,900</u>	<u>(\$2,424,952)</u>	<u>(\$2,583,716)</u>

The Center's Funds

The Center has two major governmental funds: the General Fund and the Science Center Fund.

General Fund: Fund balance at June 30, 2008 was \$497,375. The net change in fund balance was \$404,040. The increase in fund balance was a result of the Center receiving more tuition and fees receipts than in the prior year.

Science Center Fund: Fund balance at June 30, 2008 was \$94,128. The net change in fund balance was (\$62,044). The decrease in fund balance was a result of an increase in special instruction disbursements.

General Fund Budgeting Highlights

The Center's Budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal 2008, the Center amended its General Fund budget. The Center uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, final budgeted revenue was \$9,697,283, compared to original budget estimates of \$6,132,654. Of the \$3,564,629 difference, most was due to a conservative estimate for taxes and intergovernmental revenue.

The District's ending unobligated cash balance for the general fund was \$97,522 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

The Center does not currently present its capital assets on its financial statements.

Debt

At June 30, 2008, the Center had \$0 in debt outstanding.

Economic Outlook

The Center was awarded the Regional Fiscal Agent for Region 4 grant from ODE. The grant began July 1, 2007. It will allow for the Center to combine the Special Education Regional Resource Center within the Center's operation, in addition to providing regional support for school improvement and literacy to the districts. The merge will cause the Center to expand its current office space to accommodate the additional staff. The additional services that will be provided as a result from this grant will be funded by ODE and will not cost the Center any additional general fund expenditures.

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

Contacting the Center's Financial Management

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

Lake County Educational Service Center
Statement of Net Assets-Cash Basis
June 30, 2008

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$801,950</u>
Total Assets	<u><u>801,950</u></u>
Net Assets:	
Restricted for:	
Special Revenue	280,614
Unrestricted	<u>521,336</u>
Total Net Assets	<u><u>\$801,950</u></u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center
Statement of Activities-Cash Basis
For the Fiscal Year Ended June 30, 2008

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Total
Governmental Activities:				
Instruction:				
Regular	\$514,921	\$120,512	\$380,832	(\$13,577)
Special	2,735,202	2,806,506	281,555	352,859
Vocational	371,491	726,341	1,155	356,005
Other	12,451	0	14,508	2,057
Support Services:				
Pupil	2,015,837	1,011,705	269	(1,003,863)
Instructional Staff	1,711,495	598,006	537,596	(575,893)
General Administration	23,333	11,897	0	(11,436)
School Administration	2,460,452	751,758	1,047,742	(660,952)
Fiscal	526,303	220,154	84,717	(221,432)
Operations and Maintenance	279,207	135,883	13,625	(129,699)
Pupil Transportation	126,584	64,271	0	(62,313)
Central	815,700	405,876	20,277	(389,547)
Operation of Non-Instructional Services	158,565	80,850	0	(77,715)
Extracurricular Activities	22,277	32,831	0	10,554
Total Governmental Activities	11,773,818	6,966,590	2,382,276	(2,424,952)

General Receipts:

Grants and Entitlements not Restricted to Specific Programs	2,410,054
Unrestricted Contributions	10,896
Investment Earnings	13,347
Miscellaneous	396,917
Total General Receipts	2,831,214
Change in Net Assets	406,262
Net Assets Beginning of Year	395,688
Net Assets End of Year	\$801,950

See accompanying notes to the basic financial statements.

Lake County Educational Service Center
Statement of Assets and Fund Balances-Cash Basis
Governmental Funds
June 30, 2008

	General	Science Center	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$497,375	\$94,128	\$186,486	\$777,989
Total Assets	<u>497,375</u>	<u>94,128</u>	<u>186,486</u>	<u>777,989</u>
Fund Balances:				
Reserved for Encumbrances	56,281	63,277	76,372	195,930
Unreserved, Undesignated, Reported in:				
General Fund	441,094	0	0	441,094
Special Revenue Funds	<u>0</u>	<u>30,851</u>	<u>110,114</u>	<u>140,965</u>
Total Fund Balances	<u>497,375</u>	<u>94,128</u>	<u>186,486</u>	<u>777,989</u>
Total Fund Balances	<u>\$497,375</u>	<u>\$94,128</u>	<u>\$186,486</u>	<u>\$777,989</u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center
Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities-Cash Basis
June 30, 2008

Total Governmental Fund Balance \$777,989

An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 23,961

Net Assets of Governmental Activities \$801,950

See accompanying notes to the basic financial statements.

Lake County Educational Service Center
Statement of Receipts, Expenditures
and Changes in Fund Balance-Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Science Center	Other Governmental Funds	Total Governmental Funds
Receipts:				
Tuition and Fees	\$2,158,372	\$0	\$6,777	\$2,165,149
Investment Earnings	13,347	0	0	13,347
Intergovernmental	2,410,055	761,434	1,620,842	4,792,331
Extracurricular Activities	21,282	0	14,065	35,347
Contract Services	4,765,904	0	0	4,765,904
Miscellaneous	324,048	5,000	78,954	408,002
Total Receipts	9,693,008	766,434	1,720,638	12,180,080
Expenditures:				
Current:				
Instruction:				
Regular	132,736	203,543	195,181	531,460
Special	2,428,856	306,346	0	2,735,202
Vocational	370,414	0	1,077	371,491
Other	0	0	12,451	12,451
Support Services:				
Pupil	1,968,091	0	47,746	2,015,837
Instructional Staff	1,157,274	248,732	305,489	1,711,495
General Administration	23,333	0	0	23,333
School Administration	1,472,070	38,412	949,970	2,460,452
Fiscal	425,494	31,445	69,364	526,303
Operations and Maintenance	266,496	0	12,711	279,207
Pupil Transportation	125,776	0	808	126,584
Central	795,621	0	20,079	815,700
Operation of Non-Instructional Services	158,565	0	0	158,565
Extracurricular Activities	22,277	0	0	22,277
Total Expenditures	9,347,003	828,478	1,614,876	11,790,357
Excess of Receipts Over (Under) Expenditures	346,005	(62,044)	105,762	389,723
Other Financing Sources (Uses):				
Advances In	15,100	0	0	15,100
Advances (Out)	0	0	(15,100)	(15,100)
Transfers In	43,438	0	504	43,942
Transfers (Out)	(503)	0	(5,687)	(6,190)
Total Other Financing Sources (Uses)	58,035	0	(20,283)	37,752
Net Change in Fund Balance	404,040	(62,044)	85,479	427,475
Fund Balance Beginning of Year	93,335	156,172	101,007	350,514
Fund Balance End of Year	\$497,375	\$94,128	\$186,486	\$777,989

See accompanying notes to the basic financial statements.

Lake County Educational Service Center
Reconciliation of the Statement of Receipts, Expenditures, and Changes
in Fund Balance of Governmental Funds to the Statement of Activities-Cash Basis
For the Fiscal Year Ended June 30, 2008

Net Change in Fund Balance - Total Governmental Funds \$427,475

The internal service fund used by management to charge back costs to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund receipts are eliminated. The net receipt (expense) of the internal service fund is allocated among the governmental activities. (21,213)

Change in Net Assets of Governmental Activities \$406,262

See accompanying notes to the basic financial statements.

Lake County Educational Service Center
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2008

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Tuition and Fees	\$1,365,577	\$2,158,372	\$2,158,372	\$0
Investment Earnings	8,444	13,347	13,347	0
Intergovernmental	1,524,814	2,410,055	2,410,055	0
Extracurricular Activities	13,465	25,557	21,282	(4,275)
Contract Services	3,015,333	4,765,904	4,765,904	0
Other Revenues	205,021	324,048	324,048	0
Total Revenues	6,132,654	9,697,283	9,693,008	(4,275)
Expenditures:				
Current:				
Instruction:				
Regular	104,155	134,387	133,186	1,201
Special	1,899,896	2,451,348	2,429,447	21,901
Vocational	289,874	374,010	370,669	3,341
Support Services:				
Pupil	1,540,432	1,987,548	1,969,791	17,757
Instructional Staff	905,695	1,168,576	1,158,136	10,440
General Administration	18,247	23,543	23,333	210
School Administration	1,153,065	1,487,746	1,474,454	13,292
Fiscal	333,145	429,841	426,001	3,840
Operations and Maintenance	214,733	277,060	274,585	2,475
Pupil Transportation	124,005	159,998	158,569	1,429
Central	629,194	811,820	804,567	7,253
Operation of Non-Instructional Services	123,771	159,696	158,269	1,427
Extracurricular Activities	17,421	22,478	22,277	201
Total Expenditures	7,353,633	9,488,051	9,403,284	84,767
Excess of Revenues Over (Under) Expenditures	(1,220,979)	209,232	289,724	80,492
Other financing sources (uses):				
Advances In	9,554	15,100	15,100	0
Transfers In	1,222,367	1,932,020	1,932,020	0
Transfers (Out)	(1,477,318)	(1,906,115)	(1,889,085)	17,030
Total Other Financing Sources (Uses)	(245,397)	41,005	58,035	17,030
Net Change in Fund Balance	(1,466,376)	250,237	347,759	97,522
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	93,335	93,335	93,335	0
Fund Balance End of Year	(\$1,373,041)	\$343,572	\$441,094	\$97,522

See accompanying notes to the basic financial statements.

Lake County Educational Service Center
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2008

	Science Center Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	\$761,434	\$761,434	\$761,434	\$0
Other Revenues	5,000	5,000	5,000	0
Total Revenues	766,434	766,434	766,434	0
Expenditures:				
Current:				
Instruction:				
Regular	241,940	242,212	203,544	38,668
Special	376,874	377,299	317,064	60,235
Support Services:				
Instructional Staff	354,029	354,428	297,845	56,583
School Administration	49,753	49,809	41,857	7,952
Fiscal	37,377	37,419	31,445	5,974
Total Expenditures	1,059,973	1,061,167	891,755	169,412
Net Change in Fund Balance	(293,539)	(294,733)	(125,321)	169,412
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	156,172	156,172	156,172	0
Fund Balance End of Year	(\$137,367)	(\$138,561)	\$30,851	\$169,412

See accompanying notes to the basic financial statements.

Lake County Educational Service Center
Statement of Fund Net Assets-Cash Basis
Proprietary Fund
June 30, 2008

	<u>Governmental Activities- Internal Service Fund</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$23,961</u>
Total Assets	<u>23,961</u>
Net Assets:	
Unrestricted	<u>23,961</u>
Total Net Assets	<u>\$23,961</u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center
Statement of Revenues, Expenses
and Changes in Fund Net Assets-Cash Basis
Proprietary Fund
For the Fiscal Year Ended June 30, 2008

	Governmental Activities- Internal Service Fund
Operating Receipts:	
Miscellaneous	\$83,858
Total Operating Receipts	83,858
Operating Disbursements:	
Personal Services	1,350
Materials and Supplies	2,975
Purchased Services	60,895
Retirement and Insurance	2,099
Total Operating Disbursements	67,319
Operating Income (Loss)	16,539
Income (Loss) Before Contributions & Transfers	16,539
Transfers (Out)	(37,752)
Change in Net Assets	(21,213)
Net Assets Beginning of Year	45,174
Net Assets End of Year	\$23,961

See accompanying notes to the basic financial statements.

Lake County Educational Service Center
Statement of Fiduciary Net Assets-Cash Basis
Fiduciary Funds
June 30, 2008

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$13,429	\$0
Total Assets	<u>13,429</u>	<u>0</u>
Net Assets:		
Unrestricted	13,429	0
Total Net Assets	<u>\$13,429</u>	<u>\$0</u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center
Statement of Changes in Fiduciary Net Assets-Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2008

	Private Purpose Trust
Additions:	
Donations	\$0
Total Additions	0
Deductions:	
Scholarships	3,581
Total Deductions	3,581
Change in Net Assets	(3,581)
Net Assets Beginning of Year	17,010
Net Assets End of Year	<u>\$13,429</u>

See accompanying notes to the basic financial statements.

**Lake County Educational Service Center
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008**

1. DESCRIPTION OF THE CENTER AND REPORTING ENTITY

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

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

The Center employed 107 certificated employees and 48 non-certificated employees.

FINANCIAL REPORTING ENTITY

The Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The financial statements include all the organizations, activities, functions and component units for which the Center (Primary Government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the Center's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ohio Administrative Code, Section 117-2-03 (B), requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Center prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The Center can be fined and various other administrative remedies may be taken against the Center.

The Center also reports investments as assets, valued at fair value at the end of the fiscal year. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

A. FUND ACCOUNTING

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

Governmental Funds

The Center classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the Center's major governmental funds:

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

Science Center Fund - The Science Center fund is used to account for monies provided for science education.

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

Proprietary Funds

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

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

Fiduciary Funds

Trust funds are used to account for resources restricted by legally binding trust agreements which are held for individual, private organization or other governments. Funds for which the Center is acting in an agency capacity are classified as agency funds. The Center’s agency fund accounts for the Lake County Financing District. In addition, the Center has a private purpose trust fund, which accounts for educational awards.

B. BASIS OF PRESENTATION

The Center's basic financial statements consist of a government-wide statement of activities, statement of net assets and fund financial statements providing more detailed financial information.

Government-wide Financial Statement of Net Assets and Statement of Activities: These statements display information about the Center as a whole, except fiduciary funds. The statement of activities eliminates internal service fund activity to avoid reporting those transactions twice.

The statement of net assets presents the cash balance of the governmental activities of the Center at fiscal year end. The government-wide statement of activities compares disbursements with program receipts for each function or program of the Center's governmental activities. Cash disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program cash receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which governmental function is self-financing on the cash basis or draws from the Center's general receipts.

Fund Financial Statements: The fund financial statements report more detailed information about the Center. The focus of governmental fund financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate nonmajor funds in a single column. The proprietary fund statement combines all internal service funds into a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

C. BUDGETARY DATA

Lake County Educational Service Center

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

The Center is required by State statute to adopt an annual appropriation budget for all fund types except agency funds. The specific timetable is as follows:

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 apportioned 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.

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.

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.

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

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

Net Change in Fund Balances

	General Fund	Science Center Fund
Cash Basis	\$404,040	(\$62,044)
Adjustment for encumbrances	(56,281)	(63,277)
Budget Basis	<u>\$347,759</u>	<u>(\$125,321)</u>

Lake County Financing District

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

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

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

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

Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during fiscal 2007-2008.

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

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

D. EQUITY IN POOLED CASH AND INVESTMENTS

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

During fiscal year 2008, investments were limited to STAR Ohio. All investments of the Center had a maturity of one year or less. Investments are reported at fair value, which is based on quoted market prices.

The Center has invested funds in the State Treasury Assets Reserve (STAR Ohio) during fiscal year 2008. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2008.

Following Ohio statutes, the Center has, by resolution, identified the funds to receive an allocation of interest. Interest revenue during 2008 amounted to \$13,347 in the General fund.

E. CAPITAL ASSETS

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected in the accompanying financial statements.

F. INVENTORY

The Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements

G. UNPAID VACATION AND SICK LEAVE

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Educational Service Center.

H. INTERFUND TRANSACTIONS

During the course of normal operations, the Center has numerous transactions between funds, including expenditures and transfers of resources to provide services and improve assets. Operating subsidies are recorded as operating transfers. The classification of amounts recorded as subsidies, advances or equity contributions is based on the intent of the Center at the time of the transaction.

I. EMPLOYER CONTRIBUTIONS TO COST-SHARING PENSION PLANS

The Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 5 and 6, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. RESTRICTED ASSETS/NET ASSETS

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

K. FUND BALANCE RESERVES

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances reserved are for encumbrances. The unreserved portions of fund equity reflected for the Governmental Fund Types are available for use within the specific purposes of those funds.

3. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.

- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio or other Ohio governments.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Center, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 40, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged pool of securities. As of June 30, 2008, \$658,894 of the Center's bank balance of \$758,894 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

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

Investments

Investments are reported at fair value. As of June 30, 2008, the Center had the following investments:

<u>Investment Type</u>	Fair Value <u>Investment Maturities</u> <u>Less Than One-Year</u>
STAR Ohio	<u>\$329,242</u>
Total Fair Value	<u>\$329,242</u>

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

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

Concentration of credit risk – The Center's investment policy allows investments in Federal Agencies or Instrumentalities. All investments were issued or guaranteed by the federal government. At year end, the Center's allocations of investments were as follows: STAR Ohio (100%).

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

4. LAKE COUNTY SCHOOL FINANCING DISTRICT

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

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

5. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Plan Description

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

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll of 9.16% is used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's contributions to SERS for pension obligations for the years ended June 30, 2008, 2007, and 2006 were \$147,512, \$187,800, and \$158,319, respectively; 100% has been contributed for fiscal year 2008, 2007 and 2006.

STATE TEACHERS RETIREMENT SYSTEM OF OHIO

Plan Description

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

Plan Options

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

DB Plan Benefits

Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits

Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2007, were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS for pension obligations for the years ended June 30, 2008, 2007, and 2006 were \$780,271, \$724,308, and \$752,232, respectively; 100% has been contributed for fiscal year 2008, 2007 and 2006.

6. POST EMPLOYMENT BENEFITS

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Plan Description

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

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute and established by the system.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare part B Fund. For fiscal year 2008, the actuarially required allocation was .66%. District contributions for the year ended June 30, 2008 were \$10,628, which equaled the required contributions for the year.

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2008, the health care allocation was 4.18%. The actuarially required contribution (ARC), as of the December 31, 2006 annual valuation, was 11.50% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. The District contributions for the years ended June 30, 2008, 2007, and 2006 were \$67,314, \$79,519, and \$51,177, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2008, the minimum compensation level was established at \$37,300.

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

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

STATE TEACHERS RETIREMENT SYSTEM OF OHIO

Plan Description

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multi-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current programs includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

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

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

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2008, 2007 and 2006. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2008, 2007, and 2006 were \$60,021, \$55,716, and \$57,864, respectively.

8. CONTINGENT LIABILITIES

Grants - The Center receives financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2008.

9. JOINTLY GOVERNED ORGANIZATIONS

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

The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school Center is limited to its representation on the Board. In fiscal year 2008, the Center made no payments to the Council. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Independence, OH 44131.

10. CLAIMS SERVICING POOL

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

11. OSBA GROUP RATING PROGRAM

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participating in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

12. REVENUES

The Lake County Educational Service Center is funded by the State Board of Education from State funds for the cost of part (A) of the budget. Part (B) of the budget is funded \$37.00 in the following way: \$6.50 times the ADM (total number of pupils under the Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Center provides services from payments made under the State's foundation program. Simultaneously, \$32 times the sum of the ADM is paid by the State Board of Education from State funds of the Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$37.00 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

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

13. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2008, consisted of the following transfers in and transfers out and advances in and out:

	Transfers		Advances	
	In	Out	In	Out
General Fund	\$43,438	\$503	\$15,100	\$0
Other Governmental Funds	504	5,687	0	15,100
Internal Service	0	37,752	0	0
Total All Funds	\$43,942	\$43,942	\$15,100	\$15,100

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

14. CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" and GASB Statement No. 50 "Pension Disclosures."

Statement No. 45 addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits. This also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. Collectively, these benefits are commonly referred to as "other postemployment benefits (OPEB)."

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements.

There was no effect on fund balance/net assets as a result of the implementation of these new standards.

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**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Disbursements
<u>U.S. Department of Education</u>			
<i>Passed Through the Ohio Department of Education Special Education Cluster:</i>			
Special Education Grants to States	84.027	\$1,137,244	\$ 1,060,964
Total Special Education Grants to States		<u>\$1,137,244</u>	<u>1,060,964</u>
Special Education Preschool Grants	84.173	2,200	2,200
Total Preschool Grant		<u>2,200</u>	<u>2,200</u>
Total Special Education Cluster		<u>1,139,444</u>	<u>1,063,164</u>
Special Education - State Personnel Development	84.323	128,766	95,065
Total Special Education - State Personnel Development		<u>128,766</u>	<u>95,065</u>
Total U.S. Department of Education		<u>1,268,210</u>	<u>1,158,229</u>
Total Federal Assistance		<u>\$ 1,268,210</u>	<u>\$ 1,158,229</u>

The accompanying notes to this schedule are an integral part of this schedule.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance



Mary Taylor, CPA

Auditor of State

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

Lake County Educational Service Center
Lake County
30 South Park Place, Suite 320
Painesville, Ohio 44077

To the Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lake County Educational Service Center, Lake County, Ohio, (the Center) as of and for the year ended June 30, 2008, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 20, 2009, wherein we noted the Center utilized a basis of accounting other than prescribed by Ohio Administrative Code Section 117-2-03 (B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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 audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 its applicable accounting basis, such that there is more than a remote likelihood that the Center's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Center's management in a separate letter dated April 20, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2008-001.

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Center's response and, accordingly, we express no opinion on it.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 20, 2009



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Lake County Educational Service Center
Lake County
30 South Park Place, Suite 320
Painesville, Ohio 44077

To the Members of the Board:

Compliance

We have audited the compliance of Lake County Educational Service Center, Lake County, Ohio, (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 apply to its major federal program for the year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Lake County Educational Service Center complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The Center's management 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 directly and materially affect 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.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Center's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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 weaknesses, as defined above.

We intend this report solely for the information and use of the audit committee, management, the Governing Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

April 20, 2009

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

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

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

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

FINDING NUMBER 2007-001

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The report shall be certified by the proper officer or board and filed with the Auditor of State within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the Center prepared its financial statements and notes following the cash basis of accounting. This is a comprehensive basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38, the Center may be fined and subject to various other administrative remedies for its failure to file the required financial report within the required time limits.

We recommend the Center take the necessary steps to ensure the annual report is prepared in accordance with generally accepted accounting principles and file the report with the Auditor of State within the above time limit.

Official's Response:

The Center does not believe the time and expense involved in preparing the annual financial report according to GAAP is a justifiable use of staff time and financial resources.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	ORC 117.38 Filing Annual Report	No	Not Corrected Reissued as Finding Number 2008-001



Mary Taylor, CPA
Auditor of State

LAKE COUNTY EDUCATIONAL SERVICE CENTER

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 12, 2009**