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**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center of Cuyahoga County
Cuyahoga County
5811 Canal Road
Valley View, Ohio 44125

To the Governing Board:

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 Cuyahoga County, Cuyahoga County, Ohio (the Service Center), as of and for the year ended June 30, 2011, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 3, the District implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". The implementation of this statement did not result in any change in the Service Center's financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2012, on our consideration of the 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

December 11, 2012

Educational Service Center of Cuyahoga County

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

The management's discussion and analysis of the Educational Service Center of Cuyahoga County's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2011. The intent of the management's discussion and analysis is to look at the Service Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for 2011 include:

- In fiscal year 2011, total assets and liabilities decreased from fiscal year 2010. This resulted in an overall decrease in net assets of \$2,173,057. This decrease can be contributed to a decrease in intergovernmental receivables as the Service Center worked to guarantee outstanding fees and invoices were paid prior to fiscal year end.
- Total revenues increased from fiscal year 2010. This included a \$563,413 increase in program revenues offset by a \$514,454 decrease in general revenues. This can mainly be contributed to the decrease in grants and entitlements as a result of the overall economy and the decrease in State funding the Service Center received during the year.
- The Service Center is committed to meeting the academic needs of our students providing them with updated instructional materials to compete in a global environment.
- The Service Center actively pursues grants and controls expenses while still maintaining the services member districts expect of the Service Center in order to meet high academic standards.
- During fiscal year 2011, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" which recognizes constraints imposed upon the use of resources in governmental funds and categorizes the constraints into five classifications.

Using this Annual Financial Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Service Center, presenting both an aggregate view of the Service Center's finances and a longer-term view of those finances.

Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Service Center, the general fund, the local grants and title VI-B special revenue funds are the most significant funds.

Educational Service Center of Cuyahoga County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

Unaudited

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the Service Center to provide services, the view of the Service Center as a whole considers all financial transactions and asks the questions, "Are we in a better financial position this year than last?" and "Why?" or "Why not?". The *Statement of Net Assets* and the *Statement of Activities* provide the basis for answering these questions. These statements include *all 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 Service Center's *net assets* and any changes in those assets. The change in net assets is important because it tells the readers that, for the Service Center as a whole, the *financial position* of the Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

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

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major funds begins on page 7. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds are the general fund and the local grants and title VI-B special revenue funds.

Governmental Funds. Most of the Service 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 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 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 Cuyahoga County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

Unaudited

The Service Center as a Whole

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

(Table 1)
Net Assets

	Governmental Activities		Change
	2011	2010	
Assets			
Current and Other Assets	\$29,623,919	\$31,881,627	(\$2,257,708)
Capital Assets, Net	6,093,727	6,280,320	(186,593)
<i>Total Assets</i>	<u>35,717,646</u>	<u>38,161,947</u>	<u>(2,444,301)</u>
Liabilities			
Current and Other Liabilities	6,687,235	7,114,430	(427,195)
Long-Term Liabilities:			
Due Within One Year	1,767,655	1,494,606	273,049
Due in More than One Year	2,064,186	2,181,284	(117,098)
<i>Total Liabilities</i>	<u>10,519,076</u>	<u>10,790,320</u>	<u>(271,244)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,357,580	4,546,320	(188,740)
Restricted	406,540	186,766	219,774
Unrestricted	20,434,450	22,638,541	(2,204,091)
<i>Total Net Assets</i>	<u>\$25,198,570</u>	<u>\$27,371,627</u>	<u>(\$2,173,057)</u>

Total assets decreased due to a combination of factors. The primary factor is the decrease of intergovernmental receivables, capital assets and accrued interest receivable. Intergovernmental receivables decreased due to cuts to grant monies received from the State Department of Education. Investments earnings have plummeted due to the falling interest rates. Capital assets have decreased due to an additional year of depreciation which was offset by current year additions.

Liabilities decreased as a result of decreases in accounts payable and intergovernmental payable.

The net effect of the decrease in assets and the increase in liabilities resulted in a decrease of total net assets for fiscal year 2011.

Educational Service Center of Cuyahoga County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

Unaudited

Table 2 shows the change in net assets for fiscal year 2011 as compared to fiscal year 2010.

(Table 2)
Change in Net Assets
Governmental Activities

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Revenues			
<i>Program Revenues:</i>			
Charges for Services and Sales	\$47,631,053	\$47,013,724	\$617,329
Operating Grants and Contributions	13,491,303	13,545,219	(53,916)
<i>Total Program Revenues</i>	<u>61,122,356</u>	<u>60,558,943</u>	<u>563,413</u>
<i>General Revenues:</i>			
Grants and Entitlements	5,737,453	6,565,325	(827,872)
Interest	69,468	102,054	(32,586)
Unrestricted Contributions and Donations	32,794	0	32,794
Gain on Sale of Capital Assets	0	5,100	(5,100)
Miscellaneous	663,808	345,498	318,310
<i>Total General Revenues</i>	<u>6,503,523</u>	<u>7,017,977</u>	<u>(514,454)</u>
Total Revenues	<u>67,625,879</u>	<u>67,576,920</u>	<u>48,959</u>
Program Expenses			
Instruction	29,242,824	28,230,224	1,012,600
Support Services:			
Pupil and Instructional Staff	19,901,946	19,917,479	(15,533)
Board of Education, Administration, Fiscal and Business	13,129,895	12,827,715	302,180
Operation and Maintenance of Plant	1,003,308	970,161	33,147
Pupil Transportation	4,531	3,879	652
Central	161,821	202,346	(40,525)
Operation of Noninstructional Services	6,210,536	6,658,011	(447,475)
Extracurricular Activities	61,450	54,467	6,983
Interest and Fiscal Charges	82,625	81,478	1,147
<i>Total Program Expenses</i>	<u>69,798,936</u>	<u>68,945,760</u>	<u>853,176</u>
Decrease in Net Assets	(2,173,057)	(1,368,840)	(804,217)
<i>Net Assets Beginning of Year</i>	<u>27,371,627</u>	<u>28,740,467</u>	<u>(1,368,840)</u>
<i>Net Assets End of Year</i>	<u>\$25,198,570</u>	<u>\$27,371,627</u>	<u>(\$2,173,057)</u>

Program revenues increased due to increases in the number and amount of charges for services which was offset by decreases in operating grants and contributions. The Service Center derives significant income from fiscal fees and administering various grants and programs. The overall economy in Ohio has forced the State Department of Education and local school district clients to cut back thus impacting the Service Center's billing for basic services over the last few years. The Service Center provides many services that are the first to be cut in tough economic times which was apparent in 2010. Some of these services were utilized again in 2011 but not at the level of a few years ago. In efforts to increase enrollment the Service

Educational Service Center of Cuyahoga County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

Unaudited

Center brought back a number of programs. As a result, program expenses increased from 2010. Personnel and program costs are tied directly to grant funding. Operation of non-instructional services expense decreased in fiscal year 2011 due to decreased enrollment in several programs.

Governmental Activities

A review of Table 2 illustrates the concept of sound fiscal management in the government sector. The Service Center's concept of bringing its fiscal agencies under a common campus to align services, share resources and create economies of scale does work. A willingness to honestly assess programs and discontinue unprofitable ones is key to long term operations. Flexibility and adherence to basic management principals is key to continued successful operations.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for governmental activities. Table 3 shows the total cost of services and the net cost of services. The (\$8,676,580) *Net Cost of Services 2011* tells the reader that overall these services are not self-supporting and must rely on unrestricted State entitlements and unrestricted net assets to operate this fiscal year.

(Table 3)
Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Instruction	\$29,242,824	\$1,899,435	\$28,230,224	\$1,711,678
Support Services:				
Pupil and Instructional Staff	19,901,946	1,209,837	19,917,479	1,290,411
Board of Education, Administration, Fiscal and Business	13,129,895	(13,129,895)	12,827,715	(12,827,715)
Operation and Maintenance of Plant	1,003,308	(139,017)	970,161	(123,603)
Pupil Transportation	4,531	48	3,879	200
Central	161,821	(39,443)	202,346	(119,077)
Operation of Non-Instructional Services	6,210,536	1,604,400	6,658,011	1,759,137
Extracurricular Activities	61,450	680	54,467	3,630
Interest and Fiscal Charges	82,625	(82,625)	81,478	(81,478)
Totals	\$69,798,936	(\$8,676,580)	\$68,945,760	(\$8,386,817)

The Service Center's Funds

Information about the Service Center's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$68,545,357 and total expenditures of \$68,680,985, leaving a fund balance at fiscal year-end of \$21,963,495.

The net change in fund balance for the year was most significant in the general fund with a decrease of \$182,242. In comparison, all funds decreased a total of \$40,011. This decrease in fund balance can be

Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis
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contributed to decreases in intergovernmental revenues, interest and fees. The general fund is the primary source of start up funds for many of the other grant activities. Fast response to client needs and starting up an activity before initial funding arrives is what separates the Service Center from its competition. The down side to such a philosophy is that the Service Center will be an early barometer to cut backs and difficult economic times. The nature of school employment law does make the Service Center vulnerable to second guessing the best management approach to riding out the down turn.

The local grants special revenue fund had total revenues of \$7,523,921. The majority of intergovernmental revenues are used to provide non-instructional community services. Total expenditures are used to provide the support, administrative and non-instructional services that include programs for handicapped students, family intervention and operation of the Professional Development Center. The net effect of the revenues received and the expenditures incurred leaves the local grant special revenue fund with a deficit fund balance at the end of fiscal year 2011.

The title VI-B special revenue fund had a decrease in fund balance of \$277,129. This was due to additional grant monies being rewarded by the Ohio Department of Education in fiscal year 2010 that they did not receive in fiscal year 2011. The net effect of the revenues received and the expenditures incurred leaves the title VI-B special revenue fund with a deficit fund balance at the end of fiscal year 2011.

Capital Assets

Table 4 shows fiscal year 2011 balances compared to fiscal year 2010. More detailed information is presented in Note 9 of the notes to the basic financial statements.

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

	Governmental Activities	
	2011	2010
Land	\$536,778	\$536,778
Buildings and Improvements	5,052,899	5,231,047
Furniture and Equipment	504,050	512,495
<i>Total Capital Assets</i>	<u>\$6,093,727</u>	<u>\$6,280,320</u>

Debt

During 2011, the Service Center entered in a capital lease for copiers in the amount of \$95,042. In 2006, the Service Center entered into a capital lease through a lease-purchase agreement in the amount of \$2,000,000 for capital improvements for the Service Center's buildings. At the end of fiscal year 2011, the outstanding balance on the leases was \$1,736,147. More detailed information is presented in Note 15 and 16 of the notes to the basic financial statements.

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

Current Financial Related Activities

The Service Center continues to be financially stable and is able to continue to offer the programs needed to enrich and service the various school districts. The Board and administration closely monitor its revenues and expenditures in accordance with Board policy.

Fiscal year 2011 was a good year from a service delivery standpoint although financially the Service Center suffered a deficit. The Service Center delivered valuable programs to its clients and school districts in the face of unprecedented cut backs and economic downturn. Preserving school district relations is as critical as the finances.

While many outside factors can and will affect the economy and base operations, the Service Center is committed to provide the best possible services and be fiscally responsible now and in future years. The Service Center is constantly evaluating its programs and expanding where it can provide cost effective services to school districts. Cost effective services to districts is the Service Center's guiding mission. If the Service Center does not provide efficiency, there is no reason for a district to contract with the Service Center. Trust, flexibility and responsiveness are key to the Service Center's success.

Contacting the Service Center's Financial Management

This financial report provides our citizen's, taxpayers, and investors and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Bruce Basalla, Treasurer at the Service Center, 5811 Canal Road, Valley View, Ohio, 44125.

Educational Service Center of Cuyahoga County

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$23,901,550
Accrued Interest Receivable	3,889
Accounts Receivable	47,071
Intergovernmental Receivable	5,671,409
Nondepreciable Capital Assets	536,778
Depreciable Capital Assets, Net	<u>5,556,949</u>
<i>Total Assets</i>	<u>35,717,646</u>
Liabilities	
Accounts Payable	850,786
Accrued Wages and Benefits	4,536,444
Intergovernmental Payable	1,300,005
Long-Term Liabilities:	
Due Within One Year	1,767,655
Due In More Than One Year	<u>2,064,186</u>
<i>Total Liabilities</i>	<u>10,519,076</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	4,357,580
Restricted for:	
Other Purposes	406,540
Unrestricted	<u>20,434,450</u>
<i>Total Net Assets</i>	<u>\$25,198,570</u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Statement of Activities

For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$645,023	\$518,808	\$101,837	(\$24,378)
Special	28,136,720	28,672,069	1,383,550	1,918,899
Vocational	461,081	465,995	0	4,914
Support Services:				
Pupil	6,850,972	4,665,224	1,371,075	(814,673)
Instructional Staff	13,050,974	12,261,579	2,813,905	2,024,510
Board of Education	68,537	0	0	(68,537)
Administration	11,837,554	0	0	(11,837,554)
Fiscal	1,208,020	0	0	(1,208,020)
Business	15,784	0	0	(15,784)
Operation and Maintenance of Plant	1,003,308	864,291	0	(139,017)
Pupil Transportation	4,531	4,579	0	48
Central	161,821	116,378	6,000	(39,443)
Operation of Non-Instructional Services	6,210,536	0	7,814,936	1,604,400
Extracurricular Activities	61,450	62,130	0	680
Interest and Fiscal Charges	82,625	0	0	(82,625)
<i>Totals</i>	<u>\$69,798,936</u>	<u>\$47,631,053</u>	<u>\$13,491,303</u>	<u>(8,676,580)</u>
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				5,737,453
Investment Earnings				69,468
Unrestricted Contributions and Donations				32,794
Miscellaneous				663,808
<i>Total General Revenues</i>				<u>6,503,523</u>
Change in Net Assets				(2,173,057)
<i>Net Assets Beginning of Year</i>				<u>27,371,627</u>
<i>Net Assets End of Year</i>				<u>\$25,198,570</u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Balance Sheet

Governmental Funds

June 30, 2011

	<u>General</u>	<u>Local Grants</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$20,625,477	\$873,344	\$718,743	\$1,613,063	\$23,830,627
Receivables:					
Accrued Interest	3,889	0	0	0	3,889
Accounts	35,647	11,424	0	0	47,071
Intergovernmental	3,988,813	693,158	575,750	413,688	5,671,409
Interfund Receivable	4,843,020	0	0	0	4,843,020
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	70,923	0	0	0	70,923
<i>Total Assets</i>	<u>\$29,567,769</u>	<u>\$1,577,926</u>	<u>\$1,294,493</u>	<u>\$2,026,751</u>	<u>\$34,466,939</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$230,133	\$594,059	\$8,518	\$18,076	\$850,786
Accrued Wages and Benefits	4,175,494	28,980	221,283	110,687	4,536,444
Intergovernmental Payable	1,163,356	17,867	49,607	69,175	1,300,005
Interfund Payable	0	2,257,570	776,050	1,809,400	4,843,020
Deferred Revenue	222,586	0	575,750	174,853	973,189
<i>Total Liabilities</i>	<u>5,791,569</u>	<u>2,898,476</u>	<u>1,631,208</u>	<u>2,182,191</u>	<u>12,503,444</u>
Fund Balances					
Nonspendable	70,923	0	0	0	70,923
Restricted	0	0	0	117,969	117,969
Assigned	3,388,231	0	0	0	3,388,231
Unassigned (Deficit)	20,317,046	(1,320,550)	(336,715)	(273,409)	18,386,372
<i>Total Fund Balances (Deficit)</i>	<u>23,776,200</u>	<u>(1,320,550)</u>	<u>(336,715)</u>	<u>(155,440)</u>	<u>21,963,495</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$29,567,769</u>	<u>\$1,577,926</u>	<u>\$1,294,493</u>	<u>\$2,026,751</u>	<u>\$34,466,939</u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2011

Total Governmental Fund Balances		\$21,963,495
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		6,093,727
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Tuition and Fees	198,968	
Charges for Services	23,618	
Grants	750,603	
Total		973,189
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(2,095,694)	
Capital Lease	(1,736,147)	
Total		(3,831,841)
<i>Net Assets of Governmental Activities</i>		\$25,198,570

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County
Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended June 30, 2011

	General	Local Grants	Title VI-B	Other Governmental Funds	Total Governmental Funds
Revenues					
Intergovernmental	\$6,267,757	\$7,523,921	\$2,829,195	\$2,209,235	\$18,830,108
Interest	69,468	0	0	0	69,468
Tuition and Fees	35,333,836	0	0	0	35,333,836
Rentals	459,359	0	0	0	459,359
Charges for Services	12,905,159	0	0	0	12,905,159
Extracurricular Activities	25	0	0	0	25
Contributions and Donations	32,794	0	0	0	32,794
Miscellaneous	902,044	0	0	12,564	914,608
<i>Total Revenues</i>	<u>55,970,442</u>	<u>7,523,921</u>	<u>2,829,195</u>	<u>2,221,799</u>	<u>68,545,357</u>
Expenditures					
Current:					
Instruction:					
Regular	513,337	0	0	110,142	623,479
Special	27,443,186	0	436,114	221,455	28,100,755
Vocational	453,927	0	0	0	453,927
Support Services:					
Pupil	4,679,603	653,864	171,373	560,704	6,065,544
Instructional Staff	10,953,610	0	1,165,089	918,690	13,037,389
Board of Education	68,537	0	0	0	68,537
Administration	9,821,173	907,608	535,273	231,322	11,495,376
Fiscal	936,547	19,308	143,163	70,026	1,169,044
Business	15,784	0	0	0	15,784
Operation and Maintenance of Plant	988,575	529	92,338	49,690	1,131,132
Pupil Transportation	4,531	0	0	0	4,531
Central	115,151	0	0	45,535	160,686
Operation of Non-Instructional Services	773	5,531,235	579,571	6,252	6,117,831
Extracurricular Activities	61,450	0	0	0	61,450
Debt Service:					
Principal Retirement	88,783	0	4,112	0	92,895
Interest and Fiscal Charges	81,610	0	1,015	0	82,625
<i>Total Expenditures</i>	<u>56,226,577</u>	<u>7,112,544</u>	<u>3,128,048</u>	<u>2,213,816</u>	<u>68,680,985</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(256,135)</u>	<u>411,377</u>	<u>(298,853)</u>	<u>7,983</u>	<u>(135,628)</u>
Other Financing Sources					
Inception of Capital Lease	73,318	0	21,724	0	95,042
Sale of Capital Assets	575	0	0	0	575
<i>Total Other Financing Sources</i>	<u>73,893</u>	<u>0</u>	<u>21,724</u>	<u>0</u>	<u>95,617</u>
<i>Net Change in Fund Balances</i>	(182,242)	411,377	(277,129)	7,983	(40,011)
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>23,958,442</u>	<u>(1,731,927)</u>	<u>(59,586)</u>	<u>(163,423)</u>	<u>22,003,506</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$23,776,200</u>	<u>(\$1,320,550)</u>	<u>(\$336,715)</u>	<u>(\$155,440)</u>	<u>\$21,963,495</u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga 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, 2011*

Net Change in Fund Balances - Total Governmental Funds (\$40,011)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Asset Additions	219,758	
Current Year Depreciation	(360,123)	
Total		(140,365)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (46,228)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Tuition and Fees	(849,821)	
Charges for Services	(217,505)	
Grants	398,648	
Miscellaneous	(250,800)	
Reimbursable Expenses	(871,024)	
Total		(1,790,502)

Other financing sources, such as inception of capital lease, in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities. (95,042)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 92,895

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (153,804)

Change in Net Assets of Governmental Activities (\$2,173,057)

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2011

Assets	
Equity in Pooled Cash and Cash Equivalents	\$457,846
Intergovernmental Receivable	<u>34,019</u>
<i>Total Assets</i>	<u><u>\$491,865</u></u>
Liabilities	
Accounts Payable	\$10,694
Intergovernmental Payable	89,402
Undistributed Monies	<u>391,769</u>
<i>Total Liabilities</i>	<u><u>\$491,865</u></u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 1 – Description of the Service Center

In 1914, the Educational Service Center of Cuyahoga County (the Service Center) was formed. The Service Center supplies special education, supervisory, administrative, fiscal and other needed services to area school districts in Cuyahoga, Lake, Lorain and Geauga Counties.

The Service Center operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State or federal agencies to one exempted village, three local, and twenty-seven city school districts and to two career centers. The Board controls the Service Center's staff who provide services to over 347,000 students 0 to 18 years of age. The Service Center's Positive Education Program (PEP) also draws students from all of northeast Ohio, sometimes from as far away as Toledo and Columbus.

Reporting Entity

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

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

The Service Center participates in three jointly governed organizations. These organizations are the Lakeshore Northeast Ohio Computer Association, North Coast Educational Media Center, and the Positive Education Program. These organizations are presented in Note 17 in the notes to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

The financial statements of Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the Service Center's accounting policies are described below.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities that are governmental and those that are considered business-type. The Service Center, however, has only governmental activities.

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

Fund Financial Statements During the fiscal year, the Service Center segregates transactions related to certain 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 Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the Service Center are divided into two categories: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions of the Service Center typically are financed. Governmental fund reporting focuses 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 Service Center has the following major governmental funds.

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

Local Grants Fund The local grants special revenue fund accounts for and reports proceeds from the County for various purposes such as health and developmental services to assist children start school healthy and ready to learn.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Title VI-B Fund The Title VI-B special revenue fund accounts for and reports restricted Federal grant monies used to assist schools in the identification of handicapped children, development of procedural safeguards, implementation of least restrictive alternative service patterns, and provision of full educational opportunities to handicapped children at the preschool, elementary and secondary levels.

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Service Center's agency funds report resources that belong to other organizations.

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 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences between the accrual and the 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Service Center, available means expected to be received within sixty days of fiscal year end.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Nonexchange transactions, in which the 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Service Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the 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 year-end: interest, tuition, grants, fees, customer services and charges for services.

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.

Expenses/Expenditures 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.

Cash and Cash Equivalents

To improve cash management, cash received by the Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Service Center records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

During fiscal year 2011, investments were limited to STAR Ohio and Commercial Paper. Investments are reported at fair value. Fair value for the mutual fund is based on the fund's current share price.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2011.

Following Ohio statutes, the Board has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$69,468 which includes \$9,316 assigned from other Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Service Center maintains a capitalization threshold of five hundred dollars. The 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.

All capital assets are depreciated except for land. 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>
Buildings	75 years
Building Improvements	15 years
Furniture and Equipment	5-20 years

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 on the government activity column of the statement of net assets.

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 Service Center will compensate the employees for the benefits through paid time off or some other means. The Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Service Center's termination policy. The Service Center records a liability for accumulated unused sick leave for classified, certified and administrative employees after ten years of current service with the Service Center.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements or the fiduciary funds net assets statement.

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, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for the payment during the current fiscal year.

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 borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include the Peer Assistance, Refugee Children School Impact, Professional Development and development of procedural safeguards.

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

Fund Balance

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Service Center Board of Education. Those committed amounts cannot be used for any other purpose unless the Service Center Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

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

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 Board and that are either unusual in nature or infrequent in occurrence.

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.

Note 3 - Change in Accounting Principles

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

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in any change in the Service Center's financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments by updating and improving existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this statement did not result in any change in the Service Center's financial statements.

Note 4 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Service Center is bound to observe constraints imposed upon the use of the resources in the government funds.

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Local Grants	Title VI-B	Other Governmental Funds	Total
<i>Nonspendable</i>					
Unclaimed Monies	\$70,923	\$0	\$0	\$0	\$70,923
<i>Restricted for</i>					
Technology Improvements	0	0	0	24,202	24,202
Improving Teacher Quality	0	0	0	29,170	29,170
Special Instruction	0	0	0	64,597	64,597
<i>Total Restricted</i>	0	0	0	117,969	117,969
<i>Assigned to</i>					
Positive Education Programs	2,634,011	0	0	0	2,634,011
Other Purposes	754,220	0	0	0	754,220
<i>Total Assigned</i>	3,388,231	0	0	0	3,388,231
<i>Unassigned (Deficit)</i>	20,317,046	(1,320,550)	(336,715)	(273,409)	18,386,372
<i>Total Fund Balances</i>	\$23,776,200	(\$1,320,550)	(\$336,715)	(\$155,440)	\$21,963,495

Note 5 – Fund Deficits

Fund balances at June 30, 2011, included the following individual fund deficits:

<i>Special Revenue Funds:</i>	
Local Grants	\$1,320,550
Title VI-B	336,715
Alternative Schools	1,389
Peer Assistance	220,105
Title III	2,259
Preschool Disabilities	3,765
Miscellaneous Federal Grants	45,891

These deficits are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 6 – Deposits and Investments

Monies held by the Service Center are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Service Center treasury. Active monies must be maintained either as cash in the Service Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are 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. 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.

Interim monies held by the Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$20,434,350 of the Service Center's bank balance of \$24,262,853 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Service Center to a successful claim by the FDIC.

The Service 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 Service 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

As of June 30, 2011, the Service Center had Commercial Paper and STAR Ohio investments. All investments are in an internal investment pool.

	Fair Value	Maturity	Standard & Poor's Rating	Percentage of Total Investments
STAR Ohio	\$90,912	Average 58.3 Days	AAA	N/A
Commercial Paper	1,999,280	Less than one year	A1	95.65%
Total	<u>\$2,090,192</u>			

Interest Rate Risk The Service Center has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk The Standard and Poor's rating's of the Service Center's investments are listed in the table above. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service; commercial paper must be rated at the time of purchase in the highest classification established by two nationally recognized standard rating services. The Service Center has no investment policy that would further limit its investment choices.

Note 7 – Receivables

Receivables at June 30, 2011, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full within one year.

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
Positive Education Program	\$3,988,813
Local Grants	693,158
Title VI-B Grant Subsidy	575,750
Title I Grant Subsidy	197,888
Miscellaneous Federal Grant Subsidy	132,795
Peer Assistance Grant Subsidy	73,874
Preschool Disabilities Grant Subsidy	4,358
Title III Grant Subsidy	2,892
Alternative Schools Subsidy	<u>1,881</u>
Total	<u><u>\$5,671,409</u></u>

Note 8 – State Funding

The Service Center, under State law, provides supervisory services to local school districts within its territory. Each city, local and exempted village school district that entered into an agreement with the Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services to the Service Center's local and client school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State foundation program settlements and remits the amount to the Service Center. The Service Center may provide additional supervisory services if the majority of local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.

The Service Center also receives funding from the State Department of Education in the amount of \$26.52 times the average daily membership of the Service Center. Average daily membership includes the total student counts of all local school districts within the Service Center's territory and all of the Service Center's client school districts. This amount is paid from State resources. The Department of Education also deducts from the State foundation program settlement of each of the Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Service Center.

The Service Center may contract with city, exempted village, local, joint vocational or cooperative education school districts to provide special education and related services or career-technical education services. The individual boards of education pay the costs for these services directly to the Service Center.

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/10	Additions	Deletions	Balance 6/30/11
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$536,778	\$0	\$0	\$536,778
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	6,102,046	23,000	0	6,125,046
Furniture and Equipment	1,072,892	196,758	(81,153)	1,188,497
<i>Total Capital Assets, being depreciated</i>	<u>7,174,938</u>	<u>219,758</u>	<u>(81,153)</u>	<u>7,313,543</u>
Less Accumulated Depreciation				
Buildings and Improvements	(870,999)	(201,148)	0	(1,072,147)
Furniture and Equipment	(560,397)	(158,975)	34,925	(684,447)
Total Accumulated Depreciation	<u>(1,431,396)</u>	<u>(360,123)</u>	<u>34,925</u>	<u>(1,756,594)</u>
Total Capital Assets, being depreciated, net	<u>5,743,542</u>	<u>(140,365)</u>	<u>(46,228)</u>	<u>5,556,949</u>
Governmental Activities Capital Assets, Net	<u>\$6,280,320</u>	<u>(\$140,365)</u>	<u>(\$46,228)</u>	<u>\$6,093,727</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$21,367
Special	23,588
Support Services:	
Pupil	5,065
Instructional Staff	34,230
Administration	250,268
Fiscal	24,470
Central	1,135
Total Depreciation Expense	<u>\$360,123</u>

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 10 – Interfund Transactions

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

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
	<u>General Fund</u>
<i>Governmental Activities</i>	
Local Grants	\$2,257,570
Title VI-B	776,050
<i>Non-Major Funds</i>	
Alternative Schools	6,000
Peer Assistance	346,800
Title III	35,000
Title I	505,600
Preschool Disabilities	25,000
Improving Teacher Quality	41,000
Miscellaneous Federal Grants	850,000
<i>Total Governmental Activities</i>	<u><u>\$4,843,020</u></u>

The interfund payables are advances for grant monies that were not received by fiscal year end. The Service Center expects to receive the grant monies and repay the loans within the next fiscal year.

Note 11 – Risk Management

Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2011, the Service Center contracted with The Netherlands Insurance Company for the following insurance:

<u>Type</u>	<u>Amount</u>
<i>General Liability:</i>	
Bodily Injury (Aggregate Limit)	\$3,000,000
Personal Injury/Advertising Liability	1,000,000
Products/Completed Operations	2,000,000
General Annual Aggregate	2,000,000
Fire Legal Liability	300,000
Sexual Misconduct & Molestation Liability	1,000,000
Medical Expense Limit	15,000
<i>Property</i>	
Blanket Building and Contents	6,097,263
<i>Educators' Legal Liability:</i>	
Errors or Omissions Coverage	1,000,000
<i>Automobile Liability:</i>	
Bodily Injury and Property Damage	1,000,000

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

Workers' Compensation

The Service Center pays a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The firm of Sheakley UniServices, Inc. provides administrative, cost control and actuarial services to the Service Center.

Note 12 – Pension Plans

School Employee Retirement System

Plan Description – The Service Center participates in the School Employees Retirement System (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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$2,257,095, \$2,462,987 and \$1,760,184, respectively. For fiscal year 2011, 94.05 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

State Teachers Retirement System

Plan Description – The Service Center 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 can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Service Center's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$2,815,039 and \$142,557 for the fiscal year ended June 30, 2011, \$2,911,452 and \$162,685 for the fiscal year ended June 30, 2010, and \$2,898,026 and \$63,911 for the fiscal year ended June 30, 2009. For fiscal year 2011, 90.29 percent has been contributed for the DB plan and the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has contributed for 2010 and 2009.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2011 were \$97,805, made by the Service Center and \$69,864 made by the plan members. In addition, member contributions of \$31,965 were made for fiscal year 2011 for the defined contribution portion of the Combined Plan.

Note 13 – Postemployment Benefits

School Employee Retirement System

Plan Description – The Service Center participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2011, this amount was \$35,800. During fiscal year 2011, the Service Center paid \$284,462 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Service Center's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$274,227, \$395,876 and \$1,103,920, respectively. For fiscal year 2011, 94.05 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$145,743, \$146,469 and \$145,230 respectively. For fiscal year 2011, 94.05 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The Service Center's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$227,507, \$223,958 and \$222,925 respectively. For fiscal year 2011, 90.29 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Note 14 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn up to twenty days of vacation per fiscal year, depending upon length of service. Vacation is paid upon separation. All employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for all employees.

Upon retirement, classified employees who have at least ten years service credit with SERS (the last ten years with the Service Center) are paid one-fourth of their accumulated sick days up to a maximum accumulation of 120 days. Certified employees, administrators and supervisors who have at least ten years service credit with the State (the last five years with the Service Center), are paid one-fourth of their accumulated sick days up to a maximum accumulation of 120 days.

Life Insurance

The Service Center provides life insurance and accidental death and dismemberment insurance to all employees who work over 18 hours in a week through the Met Life Insurance Company.

Health Insurance

The Service Center provides medical/surgical insurance and prescription drug coverage through Kaiser Permanente, Anthem Blue Cross and Blue Shield, and Medical Mutual to all eligible employees. Vision insurance is provided through Medical Mutual, and dental insurance is provided through MetLife.

Note 15 – Long-Term Obligations

The changes in the Service Center's long-term obligations during fiscal year 2011 were as follows:

	<u>Outstanding June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2011</u>	<u>Due Within One Year</u>
Capital Leases	\$1,734,000	\$95,042	\$92,895	\$1,736,147	\$100,738
Compensated Absences	1,941,890	1,573,410	1,419,606	2,095,694	1,666,917
Total	<u>\$3,675,890</u>	<u>\$1,668,452</u>	<u>\$1,512,501</u>	<u>\$3,831,841</u>	<u>\$1,767,655</u>

The capital leases will be paid from the general fund and Title VI-B special revenue fund. Compensated absences will be paid from the general fund and the local grants and Title VI-B special revenue funds.

Note 16 – Capital Leases

The Service Center has entered into capitalized leases for capital improvements to the Service Center's buildings and copiers. The leases meet the criteria for capital leases as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases." Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

The assets acquired through the capital leases are as follows:

Assets:	
Buildings and Improvements	\$2,131,525
Copiers	108,420
Less: Accumulated Depreciation	<u>(239,098)</u>
Total Book Value as of June 30, 2011	<u><u>\$2,000,847</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2011.

	Governmental Activities
2012	\$179,460
2013	179,748
2014	179,852
2015	157,341
2016	152,589
2017-2021	764,449
2022-2026	<u>765,457</u>
Total Minimum Lease Payments	2,378,896
Less: Amounts Representing Interest	<u>(642,749)</u>
Present Value of Minimum Lease Payments	<u><u>\$1,736,147</u></u>

Note 17 – Jointly Governed Organizations

Lakeshore Northeast Ohio Computer Association (LNOCA)

LNOCA is a jointly governed organization among sixteen school districts in Cuyahoga County and the Service Center. 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. Each of the districts supports LNOCA based on a per pupil charge. The Service Center contributed \$48,416 to LNOCA during the fiscal year 2011.

The Governing Board consists of superintendents of each participating school district and the Service Center. The degree of control exercised by any participant is limited to its representation of the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of LNOCA's financial statements, write to the Service Center at 5811 Canal Road, Valley View, Ohio 44125.

North Coast Educational Media Center (Media Center)

The Media Center is a jointly governed organization among seventeen school districts and the Service Center. The jointly governed organization was formed for the purpose of providing media services to the participants. Each of the districts supports the Media Center based on a per pupil charge. The Media Center

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

is a jointly governed organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The Service Center did not make any contributions to the Media Center in the fiscal year 2011.

The Governing Board consists of a representative of each participating school district. The degree of control exercised by any participant is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of the Media Center's financial statements, write to the Service Center at 5811 Canal Road, Valley View, Ohio 44125.

Positive Education Program (PEP)

The PEP is a non-profit organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center did not make any contributions to the PEP in fiscal year 2011.

PEP's twelve member governing board consists of: three superintendents elected from the participating school districts, three attorneys, one representative of the business community, one representative of the education community, and four consumers. The degree of control exercised by any participating school district is limited to its representation on the Board. To obtain a copy of the PEP's financial statements, write to the Positive Education Program at 3100 Euclid Avenue, Cleveland, Ohio 44115-2508.

Note 18 – Contingencies

Grants

The Service Center received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally require 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 Service Center at June 30, 2011.

Litigation

The Service Center is a party to legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2011.

Supplemental Information

Educational Service Center of Cuyahoga County
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$6,225,511	
Interest			73,425	
Tuition and Fees			38,275,603	
Rentals			458,367	
Charges for Services			12,008,477	
Extracurricular Activities			25	
Contributions and Donations			17,794	
Miscellaneous			831,548	
<i>Total Revenues</i>			<u>57,890,750</u>	
Expenditures				
Current:				
Instruction:				
Regular	564,660	564,660	517,055	47,605
Special	29,002,900	29,002,900	27,306,281	1,696,619
Vocational	492,437	492,437	449,981	42,456
Support Services:				
Pupil	5,059,096	5,059,096	4,692,270	366,826
Instructional Staff	11,811,444	11,811,444	11,066,560	744,884
Board of Education	74,291	74,291	67,986	6,305
Administration	11,539,796	11,539,796	10,758,093	781,703
Fiscal	1,225,919	1,225,919	1,114,199	111,720
Business	17,623	17,623	16,104	1,519
Operation and Maintenance of Plant	1,147,489	1,147,489	1,053,690	93,799
Pupil Transportation	4,935	4,935	4,731	204
Central	126,337	126,337	115,703	10,634
Extracurricular Activities	66,773	66,773	61,016	5,757
<i>Total Expenditures</i>	<u>61,133,700</u>	<u>61,133,700</u>	<u>57,223,669</u>	<u>3,910,031</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(61,133,700)</u>	<u>(61,133,700)</u>	<u>667,081</u>	
Other Financing Sources (Uses)				
Sale of Capital Assets			575	
Advances In			5,730,400	
Advances Out			(4,839,570)	
<i>Total Other Financing Sources (Uses)</i>			<u>891,405</u>	
<i>Net Change in Fund Balance</i>			1,558,486	
<i>Fund Balance Beginning of Year</i>			16,465,058	
Prior Year Encumbrances Appropriated			<u>1,187,715</u>	
<i>Fund Balance End of Year</i>			<u>\$19,211,259</u>	

See accompanying notes to the supplemental information

Supplemental Information

Educational Service Center of Cuyahoga County
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Local Grants Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$7,004,078	
Expenditures				
Current:				
Support Services:				
Pupil	869,800	869,800	869,800	0
Administration	976,770	976,770	976,770	0
Fiscal	19,308	19,308	19,308	0
Operation of Non-Instructional Services	6,564,793	6,564,793	6,564,793	0
<i>Total Expenditures</i>	<u>8,430,671</u>	<u>8,430,671</u>	<u>8,430,671</u>	<u>0</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(8,430,671)</u>	<u>(8,430,671)</u>	<u>(1,426,593)</u>	
Other Financing Sources (Uses)				
Advances In			2,257,570	
Advances Out			<u>(2,518,400)</u>	
<i>Total Other Financing Sources (Uses)</i>			<u>(260,830)</u>	
<i>Net Change in Fund Balance</i>			(1,687,423)	
<i>Fund Balance Beginning of Year</i>			11,970	
Prior Year Encumbrances Appropriated			<u>1,028,951</u>	
<i>Fund Deficit End of Year</i>			<u><u>(\$646,502)</u></u>	

See accompanying notes to the supplemental information

Supplemental Information

Educational Service Center of Cuyahoga County
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Title VI-B Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$3,452,906	
Expenditures				
Current:				
Instruction:				
Special	501,901	501,901	449,656	52,245
Support Services:				
Pupil	192,836	192,836	172,489	20,347
Instructional Staff	1,471,772	1,471,772	1,327,787	143,985
Administration	632,528	632,528	570,585	61,943
Fiscal	286,888	286,888	263,707	23,181
Operation and Maintenance of Plant	84,676	84,676	75,741	8,935
Central	0	0	0	0
Operation of Non-Instructional Services	636,477	636,477	570,236	66,241
<i>Total Expenditures</i>	<u>3,807,078</u>	<u>3,807,078</u>	<u>3,430,201</u>	<u>376,877</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,807,078)</u>	<u>(3,807,078)</u>	<u>22,705</u>	
Other Financing Sources (Uses)				
Advances In			775,000	
Advances Out			(1,185,000)	
<i>Total Other Financing Sources (Uses)</i>			<u>(410,000)</u>	
<i>Net Change in Fund Balance</i>			(387,295)	
<i>Fund Balance Beginning of Year</i>			457,336	
Prior Year Encumbrances Appropriated			382,787	
<i>Fund Balance End of Year</i>			<u>\$452,828</u>	

See accompanying notes to the supplemental information

Educational Service Center of Cuyahoga County

*Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2011*

Note 1 – Budgetary Basis of Accounting

Budgetary Process

The Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources. The resolution sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Budgetary Basis of Accounting

While the Service Center is reporting financial position, results of operations and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general fund and the major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
6. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).

Educational Service Center of Cuyahoga County

*Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2011*

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statements on a fund type basis for the general fund and the local grants major special revenue fund.

	Net Change in Fund Balance		
	<u>General</u>	<u>Local Grants</u>	<u>Title VI-B</u>
GAAP Basis	(\$182,242)	\$411,377	(\$277,129)
Net Adjustment for Revenue Accruals	1,848,466	0	601,987
Beginning Fair Value Adjustment for Investments	1,170	0	0
Ending Fair Value Adjustment for Investments	(2,630)	0	0
Beginning Unrecorded Cash	519,504	13,691	27,299
Ending Unrecorded Cash	(587,028)	0	(30,577)
Advance In	5,730,400	2,257,570	775,000
Net Adjustment for Expenditure Accruals	(34,101)	(331,815)	(63,537)
Advance Out	(4,839,570)	(2,518,400)	(1,185,000)
Adjustment for Encumbrances	<u>(895,483)</u>	<u>(1,519,846)</u>	<u>(235,338)</u>
Budget Basis	<u>\$1,558,486</u>	<u>(\$1,687,423)</u>	<u>(\$387,295)</u>

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY**

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Grant Year	CFDA Number	Receipts	Disbursements
<u>U.S. Department of Agriculture:</u>				
<i>Passed-Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Federal School Breakfast	2011	10.553	\$113,761	\$113,761
National School Lunch Program	2011	10.555	191,009	191,009
Total U.S. Department of Agriculture			304,770	304,770
<u>U.S. Department of Education:</u>				
<i>Direct Program:</i>				
Fund for the Improvement of Education: Sounds of History	2011	84.215X	334,239	235,022
Fund for the Improvement of Education: Teaching American History	2011	84.215X	246,399	317,600
Total Funds for the Improvement of Education			580,638	552,622
<i>Passed-Through Ohio Department of Education:</i>				
Title I Cluster:				
Title I-Grants to Local Educational Agencies	2010	84.010	51,514	29,595
Title I-Grants to Local Educational Agencies	2011	84.010	55,058	56,316
ARRA – Title I-Grants to Local Educational Agencies	2010	84.389	23,872	17,750
ARRA – Title I-Grants to Local Educational Agencies	2011	84.389	85,988	102,504
Total Title I Cluster			216,432	206,165
Special Education Cluster:				
Special Education - Grants to States (IDEA, Part B)	2010	84.027	729,822	467,735
Special Education - Grants to States (IDEA, Part B)	2011	84.027	2,468,598	2,543,684
ARRA - Special Education - Grants to States (IDEA, Part B)	2010	84.391	110,370	27,579
ARRA - Special Education - Grants to States (IDEA, Part B)	2011	84.391	144,117	155,865
Subtotal Special Education - Grants to States (IDEA, Part B)			3,452,907	3,194,863
Special Education - Preschool Grants (IDEA Preschool)	2010	84.173	6,371	10,550
Special Education - Preschool Grants (IDEA Preschool)	2011	84.173	44,482	48,900
ARRA - Special Education - Preschool Grants (IDEA Preschool)	2010	84.392	4,241	0
ARRA - Special Education - Preschool Grants (IDEA Preschool)	2011	84.392	8,379	8,379
Subtotal Special Education - Preschool Grants (IDEA Preschool)			63,473	67,829
Total Special Education Cluster (IDEA)			3,516,380	3,262,692
Special Education-State Personnel Development	2010	84.323	10,179	9,969
Special Education-State Personnel Development	2011	84.323	99,172	105,372
Total Special Education-State Personnel Development			109,351	115,341
21st Century Community Learning Centers	2010	84.287	7,559	3,661
21st Century Community Learning Centers	2011	84.287	16,774	16,774
Total 21st Century Community Learning Centers			24,333	20,435
Improving Teacher Quality State Grants, Title II-A	2010	84.367	0	9,627
Improving Teacher Quality State Grants, Title II-A	2011	84.367	64,500	35,330
Total Improving Teacher Quality State Grants, Title II-A			64,500	44,957
English Language Acquisition Grant	2010	84.365	11,339	10,516
English Language Acquisition Grant	2011	84.365	101,824	104,083
Total English Language Acquisition Grant			113,163	114,599
Total U. S. Department of Education			4,624,797	4,316,811
<u>U.S. Department of Health and Human Services:</u>				
<i>Passed Through Ohio Department of Education:</i>				
Refugee and Entrant Assistance Grant	2010	93.576	47,054	67,500
Refugee and Entrant Assistance Grant	2011	93.576	33,276	33,276
Total Refugee Impact and Entrant Assistance			80,330	100,776
Daily Physical Act Pilot Development Subsidy	2011	93.110	10,000	0
Total U.S. Department of Health and Human Services			90,330	100,776
Total Federal Awards Receipts and Expenditures			\$5,019,897	\$4,722,357

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SUBRECIPIENTS

The Service Center passes certain federal awards received from the U.S. Department of Education to other governments or not-for-profit agencies (subrecipients). As Note A describes, the Service Center reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the Service Center has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

NOTE C - CHILD NUTRITION CLUSTER

The Service Center commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Service Center assumes it expends federal monies first.



Dave Yost • Auditor of State

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

Educational Service Center of Cuyahoga County
Cuyahoga County
5811 Canal Road
Valley View, Ohio 44125

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Cuyahoga County, Cuyahoga County, (the Service Center) as of and for the year ended June 30, 2011, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated December 11, 2012, wherein we noted the Service Center implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." 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 Service Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

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 deficiencies in internal control that might be deficiencies, 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider a significant deficiency in internal control over financial reporting. We consider finding 2011-001 to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the Service Center's management in a separate letter dated December 11, 2012.

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

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

Dave Yost
Auditor of State

December 11, 2012



Dave Yost • Auditor of State

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

Educational Service Center of Cuyahoga County
Cuyahoga County
5811 Canal Road
Valley View, Ohio 44125

To the Governing Board:

Compliance

We have audited the compliance of the Educational Service Center of Cuyahoga County (the Service Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Service Center's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the Service Center's major federal programs. The Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Service Center's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 Service Center's compliance with these 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 Service Center's compliance with these requirements.

As described in findings 2011-002 and 2011-003 in the accompanying schedule of findings and questioned costs, the Service Center did not comply with requirements regarding Subrecipient Monitoring and Matching, Level of Effort and Earmarking, applicable to its Child Nutrition Cluster and Special Education Cluster major federal programs. Compliance with these requirements is necessary, in our opinion, for the Service Center to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-002 and 2011-003 to be material weaknesses.

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



Dave Yost
Auditor of State

December 11, 2012

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

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 significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified – Child Nutrition Cluster and Special Education Cluster Unqualified – Title I Cluster
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster, CFDA #'s 84.027, 84.173, 84.391, and 84.392 Child Nutrition Cluster, CFDA #'s 10.553 and 10.555 Title I Cluster: CFDA #'s 84.010 and 84.389
<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

EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)

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

Finding Number 2011-001

Financial Reporting – Significant Deficiency

Sound financial reporting is the responsibility of the Treasurer and the Service Center Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

During our testing of Intergovernmental Receivable we noted \$519,843 was recorded as a reduction of Pupil Expense instead of an increase in revenues. The lack of controls over the posting of year-end financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data at year-end.

We recommend the Service Center adopt policies and procedures for controls over recording of year-end financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the Service Center and thereby increasing the reliability of the financial data at year-end. Although the Service Center has contracted a third party to perform their GAAP Conversion, the Service Center's management needs to review the statements to be sure that all items are being properly recorded.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Food Service

Finding Number	2011-002
CFDA Title and Number	Child Nutrition Cluster (CFDA # 10.553 and 10.555)
Federal Award Number / Year	2011
Federal Agency	US Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Food Service Subrecipient Monitoring – Noncompliance and Material Weakness

State agencies administering the programs included in the Child Nutrition Cluster are required to perform specific monitoring procedures in accordance with 7 Code of Federal Regulations (CFR) sections 210.18 and 210.19(a)(4), 7 CFR section 215.11 and 7 CFR section 225.7.

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number 2011-002 (Continued)

Food Service Subrecipient Monitoring – Noncompliance and Material Weakness (Continued)

The Service Center is a pass-through entity with the PEP Program. As the subrecipient of the federal award, pass-through entities should monitor subrecipients during the grant period to ensure compliance with the applicable federal requirements. This can be done in numerous ways, one of which is reviewing the subrecipient’s Single Audit reports and evaluating any audit findings or monitoring submissions for reimbursement on the Claims Reimbursement and Reporting System of the Ohio Department of Education. During Federal testing performed, we determined that subrecipient monitoring of the Child Nutrition Cluster is not being regularly performed by the Service Center.

We recommend the Service Center adopt policies and procedures to ensure that subrecipient monitoring is being performed in accordance with the requirements of OMB Circular A-133.

Finding Number	2011-003
CFDA Title and Number	Special Education Title 6B and Special Education Title 6B ARRA Grants to Local Education Agencies. (CFDA #84.027, 84.173, 84.391 and 84.392)
Federal Award Number / Year	2011
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Allowable Costs/Cost Principles – Time and Effort Documentation – Questioned Cost, Material Weakness and Material Noncompliance

2 CFR Part 225 Appendix B Section 8(a) provides that compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of the Circular.

2 CFR Part 225 Appendix B Section 8(h)(4), provides that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which must, according to subsection (h)(5), (a) reflect an after-the-fact distribution of the actual activity of each employee, (b) account for the total activity for which each employee is compensated, (c) be prepared at least monthly and coincide with one or more pay periods, and (d) signed by the employee.

EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

(Continued)

Finding Number 2011-003 (Continued)

Allowable Costs/Cost Principles – Time and Effort Documentation – Questioned Cost, Material Weakness and Material Noncompliance (Continued)

Subsection (h)(5)(e), provides that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for changes to Federal awards but may be used for interim accounting purposes, provided that:

- i. The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
- ii. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences budgeted and actual costs are less than ten percent; and
- iii. The budget estimates or other distribution percentages are revised at least quarterly, if necessary to reflect changed circumstances.

The Service Center did not obtain sufficient time and effort documentation for employees who were partially paid from Special Education grant funds during fiscal year 2011. The amount of monies charged to the Special Education Cluster for salaries in which there was no time and effort documentation provided totaled \$82,494. As a result, the costs for these salaries as charged to the Special Education Cluster grants are considered to be questioned costs.

We recommend the Service Center develop a method whereby the various activities of employees are documented as they relate to the various programs and awards. This documentation should be used to determine the allocation of salary among the various programs, grants, activities, etc. We further recommend the Service Center's management review the requirements of CFR 225 to determine the documentation needed and other requirements related to the allowability of costs to Federal awards to prevent such noncompliance in the future.

Officials Response:

The Service Center did not respond to the findings reported.

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-1	Financial Reporting	No	Not Corrected – Repeated as Finding 2011-001
2010-2	Final Expenditure Reporting	Yes	
2010-3	Subrecipient Monitoring	No	Not Corrected – Repeated as Finding 2011-002

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Dave Yost • Auditor of State

EDUCATIONAL SERVICES CENTER OF CUYAHOGA COUNTY

CUYAHOGA 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
DECEMBER 31, 2012**