



Dave Yost • Auditor of State

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

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LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Lake County Educational Service Center
Lake County
382 Blackbrook Road
Painesville, Ohio 44077

To the Members of the Board:

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

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

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

As described in Note 18, the Center adopted the provisions of Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2012, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's Discussion and Analysis and budgetary comparisons for the General, Lake County Financing District and IDEA funds, 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 Government's basic financial statements taken as a whole. 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 federal awards receipts and expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was 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

April 20, 2012

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

The discussion and analysis of the Lake County Educational Service Center's (Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2011. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center's performance.

Financial Highlights

Key financial highlights for fiscal year 2011 are as follows:

- Net assets of governmental activities decreased \$284,389 in fiscal year 2011.
- General revenues accounted for \$7,451,169 in revenue or 38% of total revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$11,948,000 or 62% of total revenues of \$19,399,169 .
- The Center had \$19,683,558 in expenses related to governmental activities; \$11,948,000 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts of \$7,451,169 were also used to provide for these programs.

Overview of the Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the 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 Center, presenting both an aggregate view of the 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 Center's most significant funds with all other nonmajor funds presented in total in one column. The General Fund, Lake County Financing District Fund and the IDEA Fund are the major funds of the Center.

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The Government-wide Financial Statements answers this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial.

In the Government-wide Financial Statements, the Center presents:

- Governmental Activities – Most of the Center's programs and services are reported here including instruction, support services, and operation of non-instructional services.

Fund Financial Statements

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

Governmental Funds All of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using 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 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.

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Center's own programs.

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

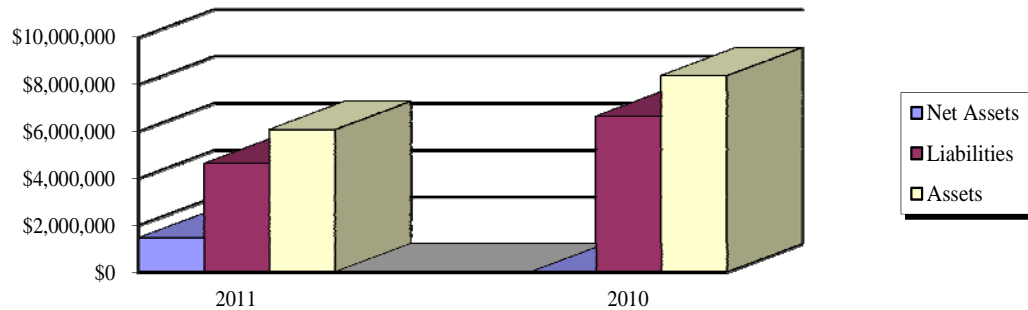
The Center as a Whole

As stated previously, the Statement of Net Assets looks at the Center as a whole. Table 1 provides a summary of the Center's net assets for 2011 compared to 2010:

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Table 1
Net Assets

	Governmental Activities	
	2011	2010
Assets:		
Current and Other Assets	\$6,035,539	\$8,323,876
Capital Assets	22,663	32,659
Total Assets	6,058,202	8,356,535
Liabilities:		
Other Liabilities	4,410,684	6,496,975
Long-Term Liabilities	200,903	128,556
Total Liabilities	4,611,587	6,625,531
Net Assets:		
Invested in Capital Assets	22,663	32,659
Restricted	583,991	1,127,770
Unrestricted	839,961	570,575
Total Net Assets	\$1,446,615	\$1,731,004



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's net assets were \$1,446,615 .

A portion of the Center's net assets, \$583,991 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Total net assets increased due to a decrease in other liabilities due to the decrease in unearned revenue (decrease in taxes receivables as of year end).

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Table 2 shows the changes in net assets for the fiscal year. Refer to the following section for discussion of the reasons for the change in net assets during the year.

Table 2
Changes in Net Assets

	Governmental Activities	
	2011	2010
Revenues:		
Program Revenues		
Charges for Services and Sales	\$8,731,650	\$8,323,403
Operating Grants and Contributions	3,216,350	3,154,783
General Revenues:		
Property Taxes	5,155,650	6,695,821
Grants and Entitlements	2,130,442	2,079,830
Other	165,077	106,521
Total Revenues	<u>19,399,169</u>	<u>20,360,358</u>
Expenses:		
Instruction	3,738,666	3,534,393
Support Services:		
Pupil and Instructional Staff	5,437,609	5,185,544
School Administrative, General		
Administration and Fiscal	9,383,144	9,314,277
Operations and Maintenance	118,060	136,433
Pupil Transportation	188,135	151,782
Central	781,710	809,884
Operation of Non-Instructional Services	<u>36,234</u>	<u>71,447</u>
Total Expenses	<u>19,683,558</u>	<u>19,203,760</u>
Change in Net Assets	(284,389)	1,156,598
Net Assets, Beginning of Year	<u>1,731,004</u>	<u>574,406</u>
Net Assets, End of Year	<u><u>\$1,446,615</u></u>	<u><u>\$1,731,004</u></u>

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Governmental Activities

The Center revenues are mainly from charges for services and sales, operating grants and grants and entitlements comprising 73% of the Center's revenues for governmental activities.

Instruction comprises 19.0% of governmental program expenses. Support services were 80.8% of governmental program cash expenses. The remaining program expenses were 0.2%.

Property taxes revenue decreased mainly due to a decrease in taxes receivable in fiscal year 2011 as compared to fiscal year 2010, which was mainly due to a decrease in taxes available for advance. Instructional expenses increased mainly due to increases in personnel costs and general inflationary factors.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction	\$3,738,666	\$3,534,393	\$1,485,053	\$1,328,044
Support Services:				
Pupil and Instructional Staff	5,437,609	5,185,544	(2,273,115)	(1,803,698)
School Administrative, General Administration, and Fiscal	9,383,144	9,314,277	(6,472,593)	(6,762,583)
Operations and Maintenance	118,060	136,433	(58,859)	(57,185)
Pupil Transportation	188,135	151,782	(84,005)	(79,570)
Central	781,710	809,884	(394,269)	(393,076)
Operation of Non-Instructional Services	36,234	71,447	(6,474)	(24,970)
Extracurricular Activities	0	0	68,704	67,464
Total Expenses	<u>\$19,683,558</u>	<u>\$19,203,760</u>	<u>(\$7,735,558)</u>	<u>(\$7,725,574)</u>

The Center's Funds

The Center has three major governmental funds: the General Fund, the Lake County Financing District Fund and IDEA Fund.

General Fund: Fund balance at June 30, 2011 was \$988,394. The net change in fund balance was \$295,284. The increase in fund balance was a result of an increase in tuition and fees revenue.

Lake County Financing District Fund: Fund balance at June 30, 2011 was \$98,150. The net change in fund balance was (\$466,096). The decrease in fund balance was a result of a decrease in taxes revenue.

IDEA Fund: Fund balance at June 30, 2011 was \$10,829. The net change in fund balance was (\$96,909). The decrease in fund balance was mainly due to the decrease in intergovernmental revenues (grant monies) received in 2011.

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

General Fund Budgeting Highlights

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

During the course of fiscal year 2011, the Center amended its General Fund budget. The Center uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, original and final budget basis revenue was \$10,925,751.

The District's ending unobligated actual cash balance for the general fund was \$1,787,954.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the Center had \$22,663 invested in equipment. Table 4 shows fiscal year 2011 balances compared to fiscal year 2010:

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

	Governmental Activities	
	2011	2010
Equipment	\$22,663	\$32,659
Total Net Capital Assets	<u>\$22,663</u>	<u>\$32,659</u>

Overall, capital assets decreased due to depreciation expense being greater than fiscal year 2011 purchases.

See Note 6 to the Basic Financial Statements for further details on the Center's capital assets.

Debt

At June 30, 2011, the Center had no debt obligations outstanding.

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Economic Outlook

In July, 2009, the Ohio's Governor signed HB 1, the state biennium budget bill. Included in this bill was a complete overhaul of the school funding model for all school districts in Ohio. The new Ohio Evidence-Based Model (OEBM) replaces the long-standing foundation formula that was declared unconstitutional by the Ohio Supreme Court. If ever fully-funded, the new model has the potential to drive funding based on student needs and could result in additional revenue. However, the current economic crisis has reduced revenue at the state level prompting budget reduction measures across the State. As such, the OEBM model is being phased in with FY 10 and FY 11 funding being allocated based on 99% of FY 09 funding and 98% of FY 10 funding, respectively. Federal stimulus funds are being used in Ohio to balance the education budget and as such, funding for public education at the current level is not secure beyond FY 11. This uncertainty could have a major impact on our instructional and operational programs. The need for additional revenue and or expenditure reductions will need to be monitored closely.

In June, 2011, Ohio's Governor signed HB 153, the state biennium budget bill for 2012 and 2013. Language included in HB 153 eliminated the OEBM funding model. As of this date a new funding model has not been developed. The district has been guaranteed the same basic level of funding in Fiscal Year 2012 as in Fiscal Year 2011.

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

Contacting the Center's Financial Management

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

Lake County Educational Service Center, Ohio
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$2,150,767
Receivables:	
Taxes	3,548,177
Accounts	254,742
Intergovernmental	81,853
Depreciable Capital Assets, Net	<u>22,663</u>
Total Assets	<u>6,058,202</u>
Liabilities:	
Accounts Payable	13,682
Accrued Wages and Benefits	1,321,733
Unearned Revenue	3,075,269
Long-Term Liabilities:	
Due Within One Year	74,504
Due In More Than One Year	<u>126,399</u>
Total Liabilities	<u>4,611,587</u>
Net Assets:	
Invested in Capital Assets	22,663
Restricted for:	
Local Grants	18,895
State Grants	3,750
Federal Grants	30,778
Lake County Financing District	530,342
Other Purposes	226
Unrestricted	<u>839,961</u>
Total Net Assets	<u><u>\$1,446,615</u></u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$423,998	\$766,301	\$129,491	\$471,794
Special	2,741,968	3,438,871	2,116	699,019
Vocational	452,430	799,974	1,266	348,810
Other	120,270	69,563	16,137	(34,570)
Support Services:				
Pupil	3,116,886	1,569,073	0	(1,547,813)
Instructional Staff	2,320,723	606,734	988,687	(725,302)
General Administration	7,284,553	9,313	1,737,302	(5,537,938)
School Administration	1,819,455	706,756	315,236	(797,463)
Fiscal	279,136	134,667	7,277	(137,192)
Operations and Maintenance	118,060	59,201	0	(58,859)
Pupil Transportation	188,135	104,130	0	(84,005)
Central	781,710	387,441	0	(394,269)
Operation of Non-Instructional Services	36,234	10,922	18,838	(6,474)
Extracurricular Activities	0	68,704	0	68,704
Total Governmental Activities	\$19,683,558	\$8,731,650	\$3,216,350	(7,735,558)
General Revenues:				
Property Taxes Levied for:				
Special Revenue Purposes				5,155,650
Grants and Entitlements not Restricted to Specific Programs				2,130,442
Unrestricted Contributions				1,537
Investment Earnings				72
Other Revenues				163,468
Total General Revenues				7,451,169
Change in Net Assets				(284,389)
Net Assets, Beginning of Year				1,731,004
Net Assets, End of Year				\$1,446,615

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
 Balance Sheet
 Governmental Funds
 June 30, 2011

	General	Lake County Financing District	IDEA	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	\$1,943,277	\$57,434	\$78,669	\$64,981	\$2,144,361
Receivables:					
Taxes	0	3,548,177	0	0	3,548,177
Accounts	254,452	0	0	0	254,452
Intergovernmental	0	0	33,734	48,119	81,853
Interfund	30,571	0	0	0	30,571
Total Assets	\$2,228,300	\$3,605,611	\$112,403	\$113,100	\$6,059,414
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	\$5,779	\$0	953	\$6,950	\$13,682
Accrued Wages and Benefits	1,209,303	0	66,887	45,543	1,321,733
Compensated Absences	24,824	0	0	0	24,824
Interfund Payable	0	0	0	26,571	26,571
Deferred Revenue	0	3,507,461	33,734	22,534	3,563,729
Total Liabilities	1,239,906	3,507,461	101,574	101,598	4,950,539
Fund Balances:					
Restricted	0	98,150	10,829	31,262	140,241
Assigned	114,722	0	0	0	114,722
Unassigned	873,672	0	0	(19,760)	853,912
Total Fund Balances	988,394	98,150	10,829	11,502	1,108,875
Total Liabilities and Fund Balances	\$2,228,300	\$3,605,611	\$112,403	\$113,100	\$6,059,414

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities
June 30, 2011

Total Governmental Fund Balance \$1,108,875

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 22,663

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds.

Delinquent Property Taxes	432,192	
Intergovernmental	<u>56,268</u>	
		488,460

An internal service fund is used by management to charge
back costs to individual funds. The assets and
liabilities of the internal service fund are included in
governmental activities in the statement of net assets. 2,696

Some liabilities reported in the statement of net assets do not
require the use of current financial resources and therefore
are not reported as liabilities in governmental funds.

Compensated Absences	<u>(176,079)</u>	
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Net Assets of Governmental Activities \$1,446,615

See accompanying notes to the basic financial statements.

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

	General	Lake County Financing District	IDEA	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$0	\$5,062,660	\$0	\$0	\$5,062,660
Tuition and Fees	3,347,488	0	0	0	3,347,488
Investment Earnings	72	0	0	0	72
Intergovernmental	2,130,442	1,737,302	957,103	577,841	5,402,688
Extracurricular Activities	76,752	0	0	0	76,752
Contract Services	5,119,995	0	0	0	5,119,995
Other Revenues	352,420	0	0	0	352,420
Total Revenues	11,027,169	6,799,962	957,103	577,841	19,362,075
Expenditures:					
Current:					
Instruction:					
Regular	280,654	0	0	124,269	404,923
Special	2,725,550	0	0	1,630	2,727,180
Vocational	451,301	0	0	1,056	452,357
Other	106,805	0	0	13,465	120,270
Support Services:					
Pupil	3,116,810	0	0	0	3,116,810
Instructional Staff	1,221,476	0	749,924	322,216	2,293,616
General Administration	18,495	7,266,058	0	0	7,284,553
School Administration	1,433,483	0	304,088	62,241	1,799,812
Fiscal	271,025	0	0	6,796	277,821
Operations and Maintenance	117,899	0	0	0	117,899
Pupil Transportation	188,101	0	0	0	188,101
Central	778,489	0	0	0	778,489
Operation of Non-Instructional Services	20,268	0	0	17,595	37,863
Total Expenditures	10,730,356	7,266,058	1,054,012	549,268	19,599,694
Excess of Revenues Over (Under) Expenditures	296,813	(466,096)	(96,909)	28,573	(237,619)
Other Financing Sources (Uses):					
Transfers In	0	0	0	1,529	1,529
Transfers (Out)	(1,529)	0	0	0	(1,529)
Total Other Financing Sources (Uses)	(1,529)	0	0	1,529	0
Net Change in Fund Balance	295,284	(466,096)	(96,909)	30,102	(237,619)
Fund Balance, Beginning of Year - Restated	693,110	564,246	107,738	(18,600)	1,346,494
Fund Balance, End of Year	\$988,394	\$98,150	\$10,829	\$11,502	\$1,108,875

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balance - Total Governmental Funds (\$237,619)

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

Governmental funds report capital asset additions as expenditures.
 However, in the statement of activities, the cost of those assets is
 allocated over their estimated useful lives as depreciation
 expense. This is the amount of the difference between capital
 asset additions and depreciation in the current period.

Depreciation Expense (9,996)

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

Delinquent Property Taxes	92,990	
Intergovernmental	<u>(55,896)</u>	
		37,094

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

Compensated Absences (64,098)

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

(9,770)

Change in Net Assets of Governmental Activities (\$284,389)

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Net Assets
Proprietary Fund
June 30, 2011

	<u>Governmental Activities- Internal Service Fund</u>
Assets:	
Current Assets:	
Equity in Pooled Cash and Investments	\$6,406
Receivables:	
Accounts	<u>290</u>
Total Assets	<u>6,696</u>
Liabilities:	
Current Liabilities:	
Interfund Payable	<u>4,000</u>
Total Liabilities	<u>4,000</u>
Net Assets:	
Unrestricted	<u>2,696</u>
Total Net Assets	<u><u>\$2,696</u></u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2011

	<u>Governmental Activities- Internal Service Fund</u>
Operating Revenues:	
Other Revenues	<u>\$55,290</u>
Total Operating Revenues	<u>55,290</u>
Operating Expenses:	
Personal Services	18,679
Materials and Supplies	3,527
Purchased Services	<u>42,854</u>
Total Operating Expenses	<u>65,060</u>
Change in Net Assets	(9,770)
Net Assets, Beginning of Year	<u>12,466</u>
Net Assets, End of Year	<u><u>\$2,696</u></u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2011

	Governmental Activities- Internal Service Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$55,705
Cash Payments to Suppliers	(3,749)
Cash Payments for Purchased Services	<u>(64,161)</u>
Net Cash Provided (Used) by Operating Activities	<u>(12,205)</u>
Cash Flows from Noncapital Financing Activities:	
Payments from Other Funds	<u>4,000</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>4,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(8,205)
Cash and Cash, Equivalents, Beginning of Year	<u>14,611</u>
Cash and Cash, Equivalents, End of Year	<u><u>\$6,406</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(\$9,770)
Changes in Assets & Liabilities:	
(Increase) Decrease in Receivables	415
Increase (Decrease) in Payables	<u>(2,850)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$12,205)</u></u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 1 - Description of The Center and Reporting Entity

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

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

The Center employed 127 certificated employees and 69 non-certificated employees.

Financial Reporting Entity

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

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (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 Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and proprietary fund provided they do not conflict with or contradict GASB pronouncements.

Measurement Focus

Government-wide Financial Statements

The 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.

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Center are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

Private purpose trust funds are reported using the economic resources measurement focus.

Fund Accounting

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

Governmental Funds

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

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

Lake County Financing District – The Lake County Financing District Fund was created for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

IDEA – The IDEA Fund accounts for grants to assist the Center in providing an appropriate public education for all children with disabilities.

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Proprietary Fund

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

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the actual 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 Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, included grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the 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: contract services, grants and interest.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

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. However, debt service expenditures, as well as any expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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

Equity in Pooled Cash and Investments

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

During fiscal year 2011, investments were limited to STAR Ohio. All investments of the Center had a maturity of one year or less. Investments are reported at fair value, which is based on quoted market prices.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The Center has invested funds in the State Treasury Assets Reserve (STAR Ohio) during fiscal year 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with 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 Center has, by resolution, identified the funds to receive an allocation of interest. Interest revenue during 2011 amounted to \$72 in the General fund.

Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported 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 Center maintains a capitalization threshold of \$2,500. The 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 reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Equipment	3 - 10 years

Compensated Absences

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for 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 Center will compensate the employees for the benefits through paid time off or some other means. The 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 entire compensated absence liability is reported on the government-wide financial statements.

The compensated absences liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The Center's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not eligible unless stated in contract	Per contract	10-25 days depending on length of service pending on length of service
Maximum Accumulation	Not eligible unless stated in contract	Non-cumulative unless stated in contract	10 days
Vested	Not applicable or as Earned	As Earned	As Earned
Termination Entitlement	Not applicable or paid upon termination	Paid upon termination or separation	Paid upon termination or separation
<u>Sick Leave</u>			
How Earned	1-1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	The number of days worked in the year based on contract	The number of days worked in the year based on contract	The number of days worked in the year based on contract
Vested	As Earned	As Earned	As Earned
Termination Entitlement	120 days	120 days	120 days

Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. The employer contributions include portions for pension benefits and for postretirement health care benefits.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the Center's \$583,991 in restricted net assets, none were restricted by enabling legislation.

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, the District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form (inventory) or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education.

Assigned – resources that are intended to be used for specific purposes as approved through the District's formal purchasing procedure by the Treasurer.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from incurred expenses for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The Center applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net assets are available. The Center considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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

As a general rule the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Center, these revenues are sales for teacher's training and finger printing. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

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 - Equity in Pooled Cash and Investments

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

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Center’s deposits may not be returned to it. The Center’s policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged pool of securities. As of June 30, 2011, \$1,903,254 of the Center’s bank balance of \$2,153,254 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the Center’s name.

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

Investments

Investments are reported at fair value. As of June 30, 2011, the Center had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
STAR Ohio	<u>\$66,792</u>	<u>0.16</u>

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Concentration of Credit Risk – The Center’s investment policy allows investments in Federal Agencies or Instrumentalities. At year end, the Center’s allocations of investments were as follows: STAR Ohio (100%).

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

Note 4 - Lake County School Financing District

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

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

Note 5 – Receivables

Receivables at June 30, 2011, consisted of taxes, accounts, intergovernmental grants and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 6 - Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, Being Depreciated</i>				
Equipment	\$96,971	\$0	\$0	\$96,971
Totals at Historical Cost	<u>96,971</u>	<u>0</u>	<u>0</u>	<u>96,971</u>
Less Accumulated Depreciation:				
Equipment	64,312	9,996	0	74,308
Total Accumulated Depreciation	<u>64,312</u>	<u>9,996</u>	<u>0</u>	<u>74,308</u>
Governmental Activities Capital Assets, Net	<u>\$32,659</u>	<u>(\$9,996)</u>	<u>\$0</u>	<u>\$22,663</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$7,106
Special		334
Support Services:		
Instructional Staff		1,433
Central		1,123
Total Depreciation Expense		<u>\$9,996</u>

Note 7 - Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
Governmental Activities:					
Compensated Absences	<u>\$128,556</u>	<u>\$144,630</u>	<u>\$72,283</u>	<u>\$200,903</u>	<u>\$74,504</u>

Compensated Absences will be paid from the fund from which the employee is paid.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 8 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

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

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's contributions to SERS for the years ended June 30, 2011, 2010, and 2009 were \$259,107, \$250,891, and \$240,415, respectively; 71% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

State Teachers Retirement System of Ohio

Plan Description

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Plan Options

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

DB Plan Benefits

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

DC Plan Benefits

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Combined Plan Benefits

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

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

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

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

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

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

Funding Policy

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

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2011, were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS for the years ended June 30, 2011, 2010, and 2009 were \$950,720, \$911,991, and \$927,638, respectively; 92% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 9 - Post Employment Benefits

School Employees Retirement System of Ohio

Plan Description

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

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation was .76%. District contributions for the year ended June 30, 2011, 2010 and 2009 were \$14,066, \$13,620 and \$12,879, respectively, which equaled the required contributions each year.

Health Care Plan

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2011, the health care allocation was 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statute provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District contributions assigned to health care for the years ended June 30, 2011, 2010, and 2009 were \$26,466, \$8,244, and \$71,438, respectively; 71% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

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

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

State Teachers Retirement System of Ohio

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2011, 2010 and 2009. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2011, 2010, and 2009 were \$67,909, \$65,142, and \$66,260, respectively; 92% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

Note 10 - Contingent Liabilities

Grants – The Center receives financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2011.

Note 11 - Jointly Governed Organizations

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

The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school Center is limited to its representation on the Board. In fiscal year 2011, the Center made no payments to the Council. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Independence, OH 44131.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 12 - Claims Servicing Pool

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

Note 13 – CompManagement, Inc. Group Retrospective Rating Program

The Center participates in the CompManagement, Inc. Group Retrospective Rating Program, an insurance purchasing pool. The Group Retrospective Rating Plan is a voluntary performance-based incentive program sponsored by trade associations or professional organizations for state-funded employers. The program is designed to reward participants that are able to keep their claim costs below a predetermined amount. Employers continue to pay their individual premium; however they have the opportunity to receive retrospective premium adjustments at the end of each of the three evaluation periods. Group Retro is not for every employer. Employers may be assessed additional premium if they are not committed to improving workplace safety and accident prevention and/or do not take appropriate action to reduce the frequency and severity of accidents involving their employees.

Note 14 – Revenues

The Lake County Educational Service Center is funded by the State Board of Education from State funds for the cost of part (A) of the budget. Part (B) of the budget is funded \$33.44 in the following way: \$6.50 times the ADM (total number of pupils under the Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Center provides services from payments made under the State's foundation program. Simultaneously, \$32 times the sum of the ADM is paid by the State Board of Education from State funds of the Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$33.44 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 15 - Interfund Transactions

Interfund transactions at June 30, 2011, consisted of the following interfund receivables, interfund payables, transfers in and transfers out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$30,571	\$0	\$0	\$1,529
Other Governmental Funds	0	26,571	1,529	0
Internal Service Fund	0	4,000	0	0
Total All Funds	<u>\$30,571</u>	<u>\$30,571</u>	<u>\$1,529</u>	<u>\$1,529</u>

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

Note 16 – Accountability

The following individual funds had a deficit in fund balance at year end (includes accrual entries):

Other Governmental Funds:	
Public Preschool	\$2,915
Alternative School	9,923
Science Center	6,922

The general fund is liable for any deficit in any funds and will provide operating transfers when cash is required, not when accruals occur. On the cash basis of accounting, no funds had deficit balances.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 17 – Fund Balances

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

Fund Balances	General	Lake County Financing District	IDEA	Other Governmental Funds	Total
Restricted for:					
Other Grants	\$0	\$0	\$0	\$18,895	\$18,895
Management Information	0	0	0	1,200	1,200
Data Communication	0	0	0	2,550	2,550
Progress Project	0	0	0	8,132	8,132
Safe Drug Free	0	0	0	259	259
Food Service	0	0	0	226	226
Lake County Financing District	0	98,150	0	0	98,150
IDEA	0	0	10,829	0	10,829
Total Restricted	0	98,150	10,829	31,262	140,241
Assigned to:					
Encumbrances	114,722	0	0	0	114,722
Total Assigned	114,722	0	0	0	114,722
Unassigned (Deficit)	873,672	0	0	(19,760)	853,912
Total Fund Balance	\$988,394	\$98,150	\$10,829	\$11,502	\$1,108,875

Note 18 – Change in Accounting Principles and Restatement of Fund Balance

Change in Accounting Principles

For fiscal year 2011, the Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” GASB 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting to the extent to which the Center is bound to honor constraints on the specific purposes for which amounts in funds can be spent.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Restatement of Fund Balance

The implementation of GASB 54 had the following effects on fund balance of the following major and non-major (other governmental) funds of the Center as they were previously reported.

	General Fund	Other Governmental Funds
	<u> </u>	<u> </u>
Fund Balance, June 30, 2010	\$663,351	\$11,159
Fund Reclassification	29,759	(29,759)
Fund Balance, June 30, 2010 - Restated	<u><u>\$693,110</u></u>	<u><u>(\$18,600)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Tuition and Fees	\$3,453,472	\$3,453,472	\$3,289,601	(\$163,871)
Investment Earnings	75	75	72	(3)
Intergovernmental	2,106,454	2,106,454	2,133,868	27,414
Extracurricular Activities	71,000	71,000	66,759	(4,241)
Contract Services	5,157,500	5,157,500	5,184,611	27,111
Other Revenues	137,250	137,250	137,985	735
Total Revenues	10,925,751	10,925,751	10,812,896	(112,855)
Expenditures:				
Current:				
Instruction:				
Regular	271,577	282,158	275,438	6,720
Special	2,704,538	2,809,911	2,742,991	66,920
Vocational	463,306	481,357	469,893	11,464
Other	74,150	77,039	75,204	1,835
Support Services:				
Pupil	3,046,554	3,165,251	3,089,869	75,382
Instructional Staff	1,171,326	1,216,963	1,187,980	28,983
General Administration	18,310	19,023	18,570	453
School Administration	1,399,928	1,454,471	1,419,832	34,639
Fiscal	263,692	273,966	267,441	6,525
Operations and Maintenance	116,412	120,947	118,067	2,880
Pupil Transportation	205,941	213,965	208,869	5,096
Central	769,509	799,490	780,450	19,040
Operation of Non-Instructional Services	21,387	22,220	21,691	529
Total Expenditures	10,526,630	10,936,761	10,676,295	260,466
Excess of Revenues Over (Under) Expenditures	399,121	(11,010)	136,601	147,611
Other Financing Sources (Uses):				
Advances In	29,250	29,250	29,250	0
Advances (Out)	(30,142)	(31,317)	(30,571)	746
Transfers In	744,411	744,411	745,435	1,024
Transfers (Out)	(736,487)	(765,181)	(746,958)	18,223
Total Other Financing Sources (Uses)	7,032	(22,837)	(2,844)	19,993
Net Change in Fund Balance	406,153	(33,847)	133,757	167,604
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,654,197	1,654,197	1,654,197	0
Fund Balance End of Year	\$2,060,350	\$1,620,350	\$1,787,954	\$167,604

See accompanying notes to the supplementary information.

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

	Lake County Financing District Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$5,653,253	\$5,642,515	\$5,528,757	(\$113,758)
Intergovernmental	1,776,423	1,773,048	1,737,302	(35,746)
Total Revenues	<u>7,429,676</u>	<u>7,415,563</u>	<u>7,266,059</u>	<u>(149,504)</u>
Expenditures:				
Current:				
Support Services:				
General Administration	7,487,041	7,266,058	7,266,127	(69)
Total Expenditures	<u>7,487,041</u>	<u>7,266,058</u>	<u>7,266,127</u>	<u>(69)</u>
Net Change in Fund Balance	(57,365)	149,505	(68)	(149,573)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	<u>57,433</u>	<u>57,433</u>	<u>57,433</u>	<u>0</u>
Fund Balance End of Year	<u>\$68</u>	<u>\$206,938</u>	<u>\$57,365</u>	<u>(\$149,573)</u>

See accompanying notes to the supplementary information.

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

	IDEA Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	\$1,186,857	\$1,186,857	\$1,206,427	\$19,570
Total Revenues	1,186,857	1,186,857	1,206,427	19,570
Expenditures:				
Current:				
Support Services:				
Instructional Staff	793,750	833,023	792,818	40,205
School Administration	316,752	332,220	312,246	19,974
Total Expenditures	1,110,502	1,165,243	1,105,064	60,179
Excess of Revenues Over (Under) Expenditures	76,355	21,614	101,363	79,749
Other Financing Sources (Uses):				
Advances (Out)	(40,183)	(41,632)	(29,250)	12,382
Total Other Financing Sources (Uses)	(40,183)	(41,632)	(29,250)	12,382
Net Change in Fund Balance	36,172	(20,018)	72,113	92,131
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	448	448	448	0
Fund Balance End of Year	\$36,620	(\$19,570)	\$72,561	\$92,131

See accompanying notes to the supplementary information.

Lake County Educational Service Center, Ohio
Notes to the Supplementary Information
For The Fiscal Year Ended June, 30, 2011

Note 1 – Budgetary Process

The Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education. However, the Center's Board approves a budget for the General Fund on or before the start of the new fiscal year, which includes estimated resources and expenditures.

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

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

The Center's Board adopts an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level.

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

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

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

The budget process described below applies to the Lake County Financing District Fund of the Lake County Educational Service Center.

Lake County Educational Service Center, Ohio
Notes to the Supplementary Information
For The Fiscal Year Ended June, 30, 2011

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

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

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

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

Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during fiscal 2010-2011.

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

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

Lake County Educational Service Center, Ohio
Notes to the Supplementary Information
For The Fiscal Year Ended June, 30, 2011

Net Change in Fund Balances:

	<u>General</u>	<u>Lake County Financing District</u>	<u>IDEA Fund</u>
GAAP Basis	\$295,284	(\$466,096)	(\$96,909)
Revenue Accruals	(214,273)	466,097	249,324
Expenditure Accruals	171,940	(69)	(44,946)
Transfers In	745,435	0	0
Transfers (Out)	(745,429)	0	0
Advances In	29,250	0	0
Advances (Out)	(30,571)	0	(29,250)
Encumbrances	(117,879)	0	(6,106)
Budget Basis	<u>\$133,757</u>	<u>(\$68)</u>	<u>\$72,113</u>

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

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

FEDERAL GRANTOR/ Pass-Through Grantor Program Title	Federal CFDA No.	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through the Ohio Department of Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	\$ 6,695	\$ 6,695
National School Lunch Program	10.555	11,917	11,917
Total Child Nutrition Cluster		<u>18,612</u>	<u>18,612</u>
Total U.S. Department of Agriculture		<u>18,612</u>	<u>18,612</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through the Ohio Department of Education:</i>			
Special Education Cluster:			
Title VI-B - IDEA	84.027	1,206,426	1,128,206
IDEA Part B	84.173	<u>22,293</u>	<u>19,411</u>
Total Special Education Cluster		<u>1,228,719</u>	<u>1,147,617</u>
Special Education - 21st Century	84.287	<u>16,511</u>	<u>18,332</u>
Special Education - State Personnel Development	84.323	<u>32,493</u>	<u>32,233</u>
Total U.S. Department of Education		<u>1,277,723</u>	<u>1,198,182</u>
Total Federal Assistance		<u>\$ 1,296,335</u>	<u>\$ 1,216,794</u>

The accompanying notes are an integral part of this schedule

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

CFDA – Catalog of Federal Domestic Assistance



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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lake County Educational Service Center, Lake County, Ohio, (the Center) as of and for the year ended June 30, 2011, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 20, 2012, wherein we noted the Center adopted the provisions of 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 Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Center's financial statements 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 was not designed to identify all deficiencies in internal control over financial reporting 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.

Compliance and Other Matters

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

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, pass-through entities and others within the 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, flowing style.

Dave Yost
Auditor of State

April 20, 2012



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

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

To the Board of Education:

Compliance

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

In our opinion, the Lake County Educational Service Center, Lake County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The 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 Center's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over on 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 Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program 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.

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

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

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

Dave Yost
Auditor of State

April 20, 2012

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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LAKE COUNTY EDUCATIONAL SERVICE CENTER

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 8, 2012