



Dave Yost • Auditor of State



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

## INDEPENDENT AUDITOR'S REPORT

Educational Service Center of Cuyahoga County  
Cuyahoga County  
6393 Oak Tree Boulevard  
Independence, Ohio 44131

To the Governing Board:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Educational Service Center of Cuyahoga County, Cuyahoga County, Ohio (the Service Center), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Educational Service Center of Cuyahoga County, Cuyahoga County, Ohio, as of June 30, 2013 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

The Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budgetary (Non-GAAP Basis) and Actual present additional analysis and are not a required part of the basic financial statements.

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

The Schedule of Federal Awards Receipts and Expenditures is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this Schedule 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, schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not subject the Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budgetary (Non-GAAP Basis) and Actual to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.

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

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

March 20, 2013

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## **Educational Service Center of Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2013  
Unaudited*

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The management's discussion and analysis of the Educational Service Center of Cuyahoga County's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2013. The intent of the management's discussion and analysis is to look at the Service Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the Service Center's financial performance.

### **Financial Highlights**

Key financial highlights for 2013 include:

- In fiscal year 2013 total assets decreased by \$293,395 and total liabilities increased by \$768,561. The decrease in assets would be attributed to less cash related to School Districts not utilizing the Service Center as in the past and using cash to start up programs to benefit student learning opportunities. The increase in liabilities was due to new debt obligations for the improvements at 6393 Oak Tree Blvd.
- Total expenditures decreased in fiscal year 2013 when compared to fiscal year 2012. This was due to a reduction in enrollment in Service Center programs which resulted in staff reductions.
- During fiscal year 2013 the Service Center implemented a new online program where students can continue their education in a non-traditional setting and still be enrolled in their school district.
- The Service Center is committed to meeting the academic needs of our students and providing them with updated instructional materials to compete in the global environment.

### **Using this Annual Financial Report**

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

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

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

## Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2013  
Unaudited*

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### Reporting the Service Center as a Whole

#### *Statement of Net Position and the Statement of Activities*

While this document contains all the funds used by the Service Center to provide services, the view of the Service Center as a whole considers all financial transactions and asks the questions, “Are we in a better financial position this year than last?” and “Why?” or “Why not?”. The *Statement of Net Position* and the *Statement of Activities* provide the basis for answering these questions. These statements include *all non-fiduciary assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

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

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

### Reporting the Service Center’s Most Significant Funds

#### *Fund Financial Statements*

The analysis of the Service Center’s major funds begins on page 9. Fund financial reports provide detailed information about the Service Center’s major funds. The Service Center uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the Service Center’s most significant funds. The Service Center’s major governmental funds are the general, local grants, title VI-B, and capital project funds.

**Governmental Funds** Most of the Service Center’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Service Center’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the *Statement of Net Position* 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 benefit of parties outside the Service Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the Service Center’s programs. These funds use the accrual basis of accounting.

## Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2013  
Unaudited*

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### The Service Center as a Whole

You may recall that the *Statement of Net Position* provides the perspective of the Service Center as a whole. Table 1 provides a summary of the Service Center's net position for 2013 compared to 2012:

(Table 1)  
Net Position

	<u>Governmental Activities</u>		
	<u>2013</u>	<u>2012</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$23,129,729	\$28,956,923	(\$5,827,194)
Capital Assets, Net	11,383,102	5,849,303	5,533,799
<i>Total Assets</i>	<u>34,512,831</u>	<u>34,806,226</u>	<u>(293,395)</u>
<b>Liabilities</b>			
Current and Other Liabilities	5,063,238	5,653,622	590,384
Long-Term Liabilities:			
Due Within One Year	1,670,976	1,827,104	156,128
Due in More than One Year	2,759,390	1,244,317	(1,515,073)
<i>Total Liabilities</i>	<u>9,493,604</u>	<u>8,725,043</u>	<u>(768,561)</u>
<b>Net Position</b>			
Net Investment in Capital Assts	11,350,820	5,792,945	5,557,875
Restricted	176,370	259,056	(82,686)
Unrestricted	13,492,037	20,029,182	(6,537,145)
<i>Total Net Position</i>	<u>\$25,019,227</u>	<u>\$26,081,183</u>	<u>(\$1,061,956)</u>

Overall assets decreased from fiscal year 2012 levels. The most significant change in assets was the decrease in cash, which was primarily due to cuts in services provided. Intergovernmental receivables decreased due to cuts in grant funding. The increase in capital assets is the result of the purchase of a building.

Liabilities increased mainly due to the issuance of new debt. Although intergovernmental payables and accrued wages and benefits decreased, the new debt was significantly higher, resulting in the increase in liabilities overall. Accrued wages and benefits and intergovernmental payables decreased due to a number of employees leaving and the positions not being filled.

The net effect of the decrease in assets and the increase in liabilities resulted in a decrease of total net position for fiscal year 2013.

**Educational Service Center of Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2013  
Unaudited*

Table 2 shows the change in net position for fiscal year 2013 as compared to fiscal year 2012.

(Table 2)  
Change in Net Position  
Governmental Activities

	2013	2012	Change
<b>Revenues</b>			
<i>Program Revenues:</i>			
Charges for Services and Sales	\$43,947,088	\$48,659,422	(\$4,712,334)
Operating Grants and Contributions	13,154,457	13,367,161	(212,704)
<i>Total Program Revenues</i>	<u>57,101,545</u>	<u>62,026,583</u>	<u>(4,925,038)</u>
<i>General Revenues:</i>			
Grants and Entitlements	5,321,192	5,554,650	(233,458)
Investment Earnings	44,275	58,123	(13,848)
Unrestricted Contributions and Donations	67,456	77,781	(10,325)
Miscellaneous	1,254,927	693,074	561,853
<i>Total General Revenues</i>	<u>6,687,850</u>	<u>6,383,628</u>	<u>304,222</u>
<b>Total Revenues</b>	<u>63,789,395</u>	<u>68,410,211</u>	<u>(4,620,816)</u>
<b>Program Expenses</b>			
Instruction	29,583,674	29,016,333	(567,341)
Support Services:			
Pupil and Instructional Staff	14,900,639	17,378,498	2,477,859
Board of Education, Administration, Fiscal and Business	13,361,413	13,449,053	87,640
Operation and Maintenance of Plant	1,670,394	1,048,362	(622,032)
Pupil Transportation	3,213	2,753	(460)
Central	39,947	85,343	45,396
Operation of Noninstructional Services	5,216,965	6,084,336	867,371
Extracurricular Activities	66,250	62,195	(4,055)
Interest and Fiscal Charges	8,856	400,725	391,869
<i>Total Program Expenses</i>	<u>64,851,351</u>	<u>67,527,598</u>	<u>2,676,247</u>
Increase (Decrease) in Net Position	(1,061,956)	882,613	(1,944,569)
<i>Net Position Beginning of Year</i>	<u>26,081,183</u>	<u>25,198,570</u>	<u>882,613</u>
<i>Net Position End of Year</i>	<u>\$25,019,227</u>	<u>\$26,081,183</u>	<u>(\$1,061,956)</u>

Program revenues decreased mainly due to a decrease in tuition and fees revenue, despite increases in some other charges for services. The Service Center derives significant income from fiscal fees and administering various grants and programs. The overall economy in Ohio has forced the State Department of Education and local school district clients to cut back thus impacting the Service Center's billing for basic services over the last few years. The Service Center provides many services that are the first to be cut in tough economic times which was apparent in fiscal year 2012. Some of these services were utilized again in fiscal year 2013 but not at the level of a few years ago. Personnel and program costs are tied directly to grant funding. Pupil and instructional staff expense decreased in fiscal year 2013 due to decreased enrollment in several programs.

**Educational Service Center of Cuyahoga County**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2013*

*Unaudited*

***Governmental Activities***

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

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for governmental activities. Table 3 shows the total cost of services and the net cost of services. The (\$7,749,806) *Net Cost of Services 2013* tells the reader that overall these services are not self-supporting and must rely on unrestricted State entitlements and unrestricted net position to operate this fiscal year.

(Table 3)  
Governmental Activities

	Total Cost of Services 2013	Net Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2012
Instruction	\$29,583,674	\$4,979,496	\$29,016,333	\$7,732,165
Support Services:				
Pupil and Instructional Staff	14,900,639	(1,922,218)	17,378,498	(221,387)
Board of Education, Administration, Fiscal and Business	13,361,413	(13,361,413)	13,449,053	(13,449,053)
Operation and Maintenance of Plant	1,670,394	(574,989)	1,048,362	(456,328)
Pupil Transportation	3,213	(965)	2,753	(902)
Central	39,947	(13,554)	85,343	(32,334)
Operation of Non-Instructional Services	5,216,965	3,171,987	6,084,336	1,347,212
Extracurricular Activities	66,250	(19,294)	62,195	(19,663)
Interest and Fiscal Charges	8,856	(8,856)	400,725	(400,725)
<i>Totals</i>	<u>\$64,851,351</u>	<u>(\$7,749,806)</u>	<u>\$67,527,598</u>	<u>(\$5,501,015)</u>

**The Service Center's Funds**

Information about the Service Center's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$65,791,702 and total expenditures of \$72,070,132, leaving a fund balance at fiscal year-end of \$15,036,963.

The net change in fund balance for the year was most significant in the general fund with a decrease of \$8,594,949, in the local grants special revenue fund with an increase of \$2,565,496, and in the capital projects fund with an increase of \$2,450,000. In comparison, all funds decreased a total of \$3,778,430. This decrease in fund balance can be contributed to a decrease in tuition and fees revenue and the overall increase in expenditures. Although instructional staff decreased significantly, total expenditures increased primarily due to the large increases in capital outlay and instruction expenditures. The general fund is the primary source of start up funds for many of the other grant activities. Fast response to client needs and starting up an activity before initial funding arrives is what separates the Service Center from its competition. The down

## Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2013  
Unaudited*

side to such a philosophy is that the Service Center will be an early barometer to cut backs and difficult economic times. The nature of school employment law does make the Service Center vulnerable to second guessing the best management approach to riding out the down turn.

The local grants special revenue fund had total revenues of \$9,016,818. The majority of intergovernmental revenues are used to provide non-instructional community services. Total expenditures are used to provide the support, administrative and non-instructional services that include programs for handicapped students, family intervention and operation of the Professional Development Center. The net effect of the revenues received and the expenditures incurred leaves the local grant special revenue fund with a deficit fund balance at the end of fiscal year 2013.

The title VI-B special revenue fund had an increase in fund balance of \$49,492. This was due to decreases in most expenditures for the fund. The net effect of the revenues received and the expenditures incurred, leaves the title VI-B special revenue fund with a deficit fund balance at the end of fiscal year 2013.

### Capital Assets

Table 4 shows fiscal year 2013 balances compared to fiscal year 2012. More detailed information is presented in Note 9 of the notes to the basic financial statements.

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

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Land	\$536,778	\$536,778
Buildings and Improvements	10,486,479	4,851,764
Furniture and Equipment	<u>359,845</u>	<u>460,761</u>
<i>Total Capital Assets</i>	<u><u>\$11,383,102</u></u>	<u><u>\$5,849,303</u></u>

The increase in capital assets is due to the Service Center purchasing a new building and making improvement to it.

### Debt

At the end of fiscal year 2013, the outstanding balance on the capital lease was \$32,282. In fiscal year 2013, the Service Center issued \$2,500,000 in Certificates of Participation for the purpose of capital improvements to the new building. The full amount remains outstanding at year end. More detailed information is presented in Notes 15 and 16 of the notes to the basic financial statements.

### Current Financial Related Activities

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

## **Educational Service Center of Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2013  
Unaudited*

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Fiscal year 2013 was a good year from a service delivery standpoint although financially the Service Center suffered a deficit. The Service Center delivered valuable programs to its clients and school districts in the face of unprecedented cut backs and economic downturn. Preserving school district relations is as critical as the finances.

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

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

This financial report provides our citizen's, taxpayers, and investors and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Bruce Basalla, Treasurer at the Service Center, 6393 Oak Tree Blvd., Independence, Ohio 44131 .

## **Basic Financial Statements**



**Educational Service Center of Cuyahoga County**

*Statement of Net Position*

*June 30, 2013*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$19,616,336
Accrued Interest Receivable	9,541
Accounts Receivable	3,219
Intergovernmental Receivable	3,500,633
Nondepreciable Capital Assets	536,778
Depreciable Capital Assets, Net	<u>10,846,324</u>
<i>Total Assets</i>	<u>34,512,831</u>
<b>Liabilities</b>	
Accounts Payable	423,539
Accrued Wages and Benefits	3,699,578
Intergovernmental Payable	934,105
Accrued Interest Payable	6,016
Long-Term Liabilities:	
Due Within One Year	1,670,976
Due In More Than One Year	<u>2,759,390</u>
<i>Total Liabilities</i>	<u>9,493,604</u>
<b>Net Position</b>	
Net Investment in Capital Assets	11,350,820
Restricted for Other Purposes	176,370
Unrestricted	<u>13,492,037</u>
<i>Total Net Position</i>	<u>\$25,019,227</u>

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2013*

	Program Revenues			Net Revenue (Expense) and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$1,324,312	\$825,101	\$130,264	(\$368,947)
Special	27,708,702	32,355,503	871,042	5,517,843
Vocational	533,418	381,260	0	(152,158)
Student Intervention Services	17,242	0	0	(17,242)
Support Services:				
Pupil	6,018,739	4,495,542	742,558	(780,639)
Instructional Staff	8,881,900	4,636,008	3,104,313	(1,141,579)
Board of Education	52,443	0	0	(52,443)
Administration	11,893,863	0	0	(11,893,863)
Fiscal	1,368,163	0	0	(1,368,163)
Business	46,944	0	0	(46,944)
Operation and Maintenance of Plant	1,670,394	1,095,405	0	(574,989)
Pupil Transportation	3,213	2,248	0	(965)
Central	39,947	26,393	0	(13,554)
Operation of Non-Instructional Services	5,216,965	82,672	8,306,280	3,171,987
Extracurricular Activities	66,250	46,956	0	(19,294)
Interest and Fiscal Charges	8,856	0	0	(8,856)
<i>Totals</i>	<u>\$64,851,351</u>	<u>\$43,947,088</u>	<u>\$13,154,457</u>	<u>(7,749,806)</u>
<b>General Revenues</b>				
Grants and Entitlements not Restricted to Specific Programs				5,321,192
Investment Earnings				44,275
Unrestricted Contributions and Donations				67,456
Miscellaneous				<u>1,254,927</u>
<i>Total General Revenues</i>				<u>6,687,850</u>
Change in Net Position				(1,061,956)
<i>Net Position Beginning of Year</i>				<u>26,081,183</u>
<i>Net Position End of Year</i>				<u><u>\$25,019,227</u></u>

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**

*Balance Sheet  
Governmental Funds  
June 30, 2013*

	<u>General</u>	<u>Local Grants</u>	<u>Title VI-B</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$12,325,271	\$0	\$729,896	\$2,500,000	\$1,436,217	\$16,991,384
Receivables:						
Accrued Interest	9,541	0	0	0	0	9,541
Accounts	3,219	0	0	0	0	3,219
Intergovernmental	2,837,215	375,988	171,859	0	115,571	3,500,633
Interfund Receivable	3,284,834	183,695	0	0	0	3,468,529
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	<u>125,548</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>125,548</u>
<b>Total Assets</b>	<u>\$18,585,628</u>	<u>\$559,683</u>	<u>\$901,755</u>	<u>\$2,500,000</u>	<u>\$1,551,788</u>	<u>\$24,098,854</u>
<b>Liabilities</b>						
Accounts Payable	\$93,641	\$255,328	\$4,725	\$50,000	\$19,845	\$423,539
Accrued Wages and Benefits	3,392,303	26,988	163,437	0	116,850	3,699,578
Intergovernmental Payable	828,270	28,492	37,917	0	39,426	934,105
Interfund Payable	<u>183,695</u>	<u>909,974</u>	<u>644,609</u>	<u>0</u>	<u>1,730,251</u>	<u>3,468,529</u>
<b>Total Liabilities</b>	<u>4,497,909</u>	<u>1,220,782</u>	<u>850,688</u>	<u>50,000</u>	<u>1,906,372</u>	<u>8,525,751</u>
<b>Deferred Inflows of Resources</b>	<u>79,616</u>	<u>183,695</u>	<u>171,859</u>	<u>0</u>	<u>100,970</u>	<u>536,140</u>
<b>Fund Balances</b>						
Nonspendable	125,548	0	0	0	0	125,548
Restricted	0	0	0	2,450,000	37,383	2,487,383
Committed	100,000	0	0	0	0	100,000
Assigned	5,258,711	0	0	0	0	5,258,711
Unassigned (Deficit)	<u>8,523,844</u>	<u>(844,794)</u>	<u>(120,792)</u>	<u>0</u>	<u>(492,937)</u>	<u>7,065,321</u>
<b>Total Fund Balances (Deficit)</b>	<u>14,008,103</u>	<u>(844,794)</u>	<u>(120,792)</u>	<u>2,450,000</u>	<u>(455,554)</u>	<u>15,036,963</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$18,585,628</u>	<u>\$559,683</u>	<u>\$901,755</u>	<u>\$2,500,000</u>	<u>\$1,551,788</u>	<u>\$24,098,854</u>

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2013*

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<b>Total Governmental Fund Balances</b>	<b>\$15,036,963</b>
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*Amounts reported for governmental activities in the  
 statement of net position are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	11,383,102
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:

Tuition and Fees	61,653		
Charges for Services	16,547		
Grants	456,524		
Rent	609		
Miscellaneous	807		
	807		
<b>Total</b>			<b>536,140</b>

The internal service fund is used by management to charge the costs of medical insurance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net position.

Net Position	2,052,404		
Claims Payable	447,000		
	447,000		
<b>Total</b>			<b>2,499,404</b>

In the statement of net position, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(6,016)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Certificates of Participation	(2,500,000)		
Capital Leases	(32,282)		
Compensated Absences	(1,451,084)		
Claims Payable	(447,000)		
	(447,000)		
<b>Total</b>			<b>(4,430,366)</b>

<i>Net Position of Governmental Activities</i>	<b><u><u>\$25,019,227</u></u></b>
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See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2013*

	General	Local Grants	Title VI-B	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Intergovernmental	\$5,656,876	\$8,875,937	\$2,688,378	\$0	\$2,612,110	\$19,833,301
Interest	44,275	0	0	0	0	44,275
Tuition and Fees	31,349,238	82,672	0	0	0	31,431,910
Rentals	714,863	0	0	0	0	714,863
Charges for Services	12,427,357	0	0	0	0	12,427,357
Extracurricular Activities	25	0	0	0	0	25
Contributions and Donations	67,456	17,600	0	0	0	85,056
Miscellaneous	1,214,306	40,609	0	0	0	1,254,915
<i>Total Revenues</i>	<u>51,474,396</u>	<u>9,016,818</u>	<u>2,688,378</u>	<u>0</u>	<u>2,612,110</u>	<u>65,791,702</u>
<b>Expenditures</b>						
Current:						
Instruction:						
Regular	1,179,255	0	0	0	128,942	1,308,197
Special	27,821,010	0	306,994	0	297,864	28,425,868
Vocational	544,475	0	0	0	0	544,475
Student Intervention Services	0	17,242	0	0	0	17,242
Support Services:						
Pupil	5,486,236	24,378	55,085	0	576,607	6,142,306
Instructional Staff	6,088,896	287,883	1,295,998	0	1,202,791	8,875,568
Board of Education	53,504	0	0	0	0	53,504
Administration	10,075,054	1,402,866	292,199	0	516,007	12,286,126
Fiscal	1,092,200	34,615	108,667	0	120,746	1,356,228
Business	47,769	0	0	0	0	47,769
Operation and Maintenance of Plant	1,606,895	0	72,590	0	16,517	1,696,002
Pupil Transportation	3,213	0	0	0	0	3,213
Central	37,721	0	0	0	1,105	38,826
Operation of Non-Instructional Services	0	4,684,338	504,202	0	0	5,188,540
Extracurricular Activities	61,534	0	0	0	0	61,534
Capital Outlay	5,947,818	0	0	50,000	0	5,997,818
Debt Service:						
Principal Retirement	21,749	0	2,327	0	0	24,076
Interest and Fiscal Charges	2,016	0	824	0	0	2,840
<i>Total Expenditures</i>	<u>60,069,345</u>	<u>6,451,322</u>	<u>2,638,886</u>	<u>50,000</u>	<u>2,860,579</u>	<u>72,070,132</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(8,594,949)</u>	<u>2,565,496</u>	<u>49,492</u>	<u>(50,000)</u>	<u>(248,469)</u>	<u>(6,278,430)</u>
<b>Other Financing Sources</b>						
Certificates of Participation Issued	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,500,000</u>	<u>0</u>	<u>2,500,000</u>
<i>Net Change in Fund Balances</i>	<u>(8,594,949)</u>	<u>2,565,496</u>	<u>49,492</u>	<u>2,450,000</u>	<u>(248,469)</u>	<u>(3,778,430)</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>22,603,052</u>	<u>(3,410,290)</u>	<u>(170,284)</u>	<u>0</u>	<u>(207,085)</u>	<u>18,815,393</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$14,008,103</u>	<u>(\$844,794)</u>	<u>(\$120,792)</u>	<u>\$2,450,000</u>	<u>(\$455,554)</u>	<u>\$15,036,963</u>

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2013*

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**Net Change in Fund Balances - Total Governmental Funds** (\$3,778,430)

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

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

Capital Asset Additions	5,916,156	
Current Year Depreciation	(380,396)	
Total		5,535,760

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (1,961)

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

Tuition and Fees	(272,640)	
Charges for Services	(355,036)	
Grants	(1,375,252)	
Rent	609	
Miscellaneous	807	
Total		(2,001,512)

Other financing sources, such as Certificates of Participation issued, in the governmental funds that increase long-term liabilities in the statement of net position are not reported as revenues in the statement of activities. (2,500,000)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 24,076

In the governmental funds, interest is expensed when due, whereas interest is accrued in the statement of net position and is not reported as an expense in the statement of activities. (6,016)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 1,076,979

The internal service fund used by management is not reported in the Service Center statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 589,148

*Change in Net Position of Governmental Activities* (\$1,061,956)

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**

*Statement of Fund Net Position*

*Internal Service Fund*

*June 30, 2013*

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<b>Assets</b>	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,499,404</u>
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Claims Payable	400,000
<i>Long-Term Liabilities</i>	
Claims Payable	<u>47,000</u>
<i>Total Liabilities</i>	<u>447,000</u>
<b>Net Position</b>	
Unrestricted	<u><u>\$2,052,404</u></u>

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**

*Statement of Revenues,*

*Expenses and Changes in Fund Net Position*

*Internal Service Fund*

*For the Fiscal Year Ended June 30, 2013*

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<b>Operating Revenues</b>	
Charges for Services	<u>\$7,354,803</u>
<b>Operating Expenses</b>	
Purchased Services	684,155
Claims	<u>6,081,500</u>
<i>Total Operating Expenses</i>	<u>6,765,655</u>
<i>Change in Net Position</i>	589,148
<i>Net Position Beginning of Year</i>	<u>1,463,256</u>
<i>Net Position End of Year</i>	<u><u>\$2,052,404</u></u>

See accompanying notes to the basic financial statements



**Educational Service Center of Cuyahoga County**

*Statement of Cash Flows*

*Internal Service Fund*

*For the Fiscal Year Ended June 30, 2013*

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***Increase (Decrease) in Cash and Cash Equivalents***

**Cash Flows from Operating Activities**

Cash Received from Interfund Services Provided	\$7,354,803
Cash Payments for Claims	(6,121,500)
Cash Payments for Services	<u>(684,155)</u>

*Net Increase in Cash and Cash Equivalents* 549,148

*Cash and Cash Equivalents Beginning of Year* 1,950,256

*Cash and Cash Equivalents End of Year* \$2,499,404

***Reconciliation of Operating Income to  
Net Cash Provided by Operating Activities***

*Operating Income* \$589,148

**Adjustments**

Decrease in Claims Payable (40,000)

*Net Cash Provided by Operating Activities* \$549,148

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**

*Statement of Fiduciary Assets and Liabilities*

*Agency Funds*

*June 30, 2013*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$520,341
Intergovernmental Receivable	<u>10,489</u>
<i>Total Assets</i>	<u><u>\$530,830</u></u>
<b>Liabilities</b>	
Accounts Payable	\$7,899
Accrued Wages and Benefits	4,370
Intergovernmental Payable	1,446
Undistributed Monies	<u>517,115</u>
<i>Total Liabilities</i>	<u><u>\$530,830</u></u>

See accompanying notes to the basic financial statements

# **Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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## **Note 1 – Description of the Service Center**

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

The Service Center operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State or federal agencies to one exempted village, to three local and twenty-seven city school districts and to two career centers. The Board controls the Service Center's staff who provide services that impact 347,000 to 351,000 students 0 to 18 years of age attending numerous school districts. The Service Center's special education services also draw students from school districts throughout northeast Ohio, sometimes from as far away as Toledo and Columbus.

### ***Reporting Entity***

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

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

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

## **Note 2 – Summary of Significant Accounting Policies**

The financial statements of Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Service Center's accounting policies are described below.

# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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### ***Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities that are governmental and those that are considered business-type. The Service Center, however, has only governmental activities.

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

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

### ***Fund Accounting***

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

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

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

# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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

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

***Capital Projects Fund*** The capital projects fund accounts for and reports restricted certificates of participation proceeds to be used for various improvements to the administration building.

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

***Proprietary Fund Type*** Proprietary funds focus on the determination of operating income, changes in net position, financial position and cash flows and are classified as either enterprise or internal service. The Service Center only has one internal service fund.

***Internal Service Fund*** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Service Center on a cost-reimbursement basis. The internal service fund accounts for payments, administrative costs and reserves of the Service Center's self-insured medical coverage.

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

### ***Measurement Focus***

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

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

# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013*

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### ***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. Proprietary and fiduciary funds use the accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows of resources, and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Non-Exchange Transactions*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Service Center, available means expected to be received within sixty days of fiscal year end.

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

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

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

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

## **Educational Service Center of Cuyahoga County**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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

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

### ***Cash and Cash Equivalents***

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

During fiscal year 2013, investments were limited to STAR Ohio. Investments are reported at fair value.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold at June 30, 2013.

Following Ohio statutes, the Board has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$44,275 which includes \$12,069 assigned from other Service Center funds.

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

### ***Capital Assets***

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

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

# Educational Service Center of Cuyahoga County

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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All capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	75 years
Building Improvements	15 years
Furniture and Equipment	5-20 years

### ***Interfund Balances***

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

### ***Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the Service Center will compensate the employees for the benefits through paid time off or some other means. The Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

### ***Accrued Liabilities and Long-Term Obligations***

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for the payment during the current fiscal year.



# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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### ***Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes includes the Refugee Children School Impact, professional development and development of procedural safeguards.

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

### ***Fund Balance***

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

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

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

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

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

***Unassigned*** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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### ***Internal Activity***

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

### ***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Service Center, these revenues are charges for services for the self-insurance program. 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 - Change in Accounting Principles**

For fiscal year 2013, the Service Center has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," Statement No. 61, "The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34," Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," Statement No. 65, "Items Previously Reported as Assets and Liabilities" and Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the Service Center's financial statements.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units presentation and certain disclosure requirements. These changes were incorporated in the Service Center's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the Service Center's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the Service Center's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

**Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the Service Center's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the Service Center's financial statements.

**Note 4 - Fund Balances**

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

Fund Balances	General	Local Grants	Title VI-B	Capital Projects	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>						
Unclaimed Monies	\$125,548	\$0	\$0	\$0	\$0	\$125,548
<b><i>Restricted for</i></b>						
Technology Improvements	0	0	0	0	24,202	24,202
English Proficiency	0	0	0	0	1,370	1,370
Capital Improvements	0	0	0	2,450,000	0	2,450,000
Professional Development	0	0	0	0	11,811	11,811
<b><i>Total Restricted</i></b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,450,000</b>	<b>37,383</b>	<b>2,487,383</b>
<b><i>Committed to</i></b>						
Building Renovations	100,000	0	0	0	0	100,000
<b><i>Assigned to</i></b>						
Positive Education Programs	4,479,664	0	0	0	0	4,479,664
Purchases on Order	779,047	0	0	0	0	779,047
<b><i>Total Assigned</i></b>	<b>5,258,711</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,258,711</b>
<b><i>Unassigned (Deficit)</i></b>	<b>8,523,844</b>	<b>(844,794)</b>	<b>(120,792)</b>	<b>0</b>	<b>(492,937)</b>	<b>7,065,321</b>
<b><i>Total Fund Balances</i></b>	<b>\$14,008,103</b>	<b>(\$844,794)</b>	<b>(\$120,792)</b>	<b>\$2,450,000</b>	<b>(\$455,554)</b>	<b>\$15,036,963</b>

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2013*

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### **Note 5 – Fund Deficits**

Fund balances at June 30, 2013, included the following individual fund deficits:

*Special Revenue Funds:*

Local Grants	\$844,794
Peer Assistance	262,824
Race to the Top	140,123
Title VI-B	120,792
Improving Teacher Quality	76,232
Title I	7,113
Preschool Disabilities	6,645

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

### **Note 6 – Deposits and Investments**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

# Educational Service Center of Cuyahoga County

## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

### **Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$17,900,144 of the Service Center's bank balance of \$22,143,521 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Service Center to a successful claim by the FDIC.

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

### **Investments**

As of June 30, 2013, the Service Center had a STAR Ohio investment. All investments are in an internal investment pool.

	Fair Value	Maturity	Standard & Poor's Rating
STAR Ohio	\$91,019	Average 57.5 Days	AAAm

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

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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**Credit Risk** The Standard and Poor's rating of the Service Center's investment is listed in the table above. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Service Center has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk** The Service Center places no limit on the amount it may invest in any one issuer.

### Note 7 – Receivables

Receivables at June 30, 2013, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full within one year.

A summary of the principal items of intergovernmental receivables follows:

<b>Governmental Activities</b>	<u>Amounts</u>
Positive Education Program	\$2,837,215
Local Grants	375,988
Title VI-B Grant Subsidy	171,859
Peer Assistance Grant Subsidy	73,773
Title I Grant Subsidy	26,883
Preschool Disabilities Grant Subsidy	14,179
Miscellaneous Federal Grant Subsidy	<u>736</u>
<b>Total</b>	<u><u>\$3,500,633</u></u>

### Note 8 – State Funding

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

The Service Center also receives funding from the State Department of Education in the amount of \$37.17 times the average daily membership of the Service Center. Average daily membership includes the total student counts of all local school districts within the Service Center's territory and all of the Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State foundation program settlement of each of the Service Center's local and client school districts an amount equal to \$12.00 times the school district's total student count and remits this amount to the Service Center.

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2013*

Due to provisions in the State budget bill, the per pupil funding in the permanent section of law did not apply to fiscal years 2012 and 2013. Instead, ESC's received a percentage of the funding they received the previous year. For fiscal year 2013, ESC's received 85 percent of the funding they received in fiscal year 2012.

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

### Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance 6/30/12	Additions	Deletions	Balance 6/30/13
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$536,778	\$0	\$0	\$536,778
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	6,125,584	5,835,800	0	11,961,384
Furniture and Equipment	1,311,721	80,356	(7,061)	1,385,016
<i>Total Capital Assets, being depreciated</i>	7,437,305	5,916,156	(7,061)	13,346,400
Less Accumulated Depreciation				
Buildings and Improvements	(1,273,820)	(201,085)	0	(1,474,905)
Furniture and Equipment	(850,960)	(179,311)	5,100	(1,025,171)
<i>Total Accumulated Depreciation</i>	(2,124,780)	(380,396)	5,100	(2,500,076)
Total Capital Assets, being depreciated, net	5,312,525	5,535,760	(1,961)	10,846,324
Governmental Activities Capital Assets, Net	\$5,849,303	\$5,535,760	(\$1,961)	\$11,383,102

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$21,122
Special	18,417
Support Services:	
Pupil	18,244
Instructional Staff	48,021
Administration	246,628
Fiscal	26,410
Central	1,121
Operation of Noninstructional Services	433
Total Depreciation Expense	\$380,396

# Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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## Note 10 – Risk Management

### *Property and Liability*

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2013, the Service Center contracted with the Ohio Casualty Insurance Company for the following insurance:

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

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

### *Workers' Compensation*

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

### *Employee Health Benefits*

The Service Center is self-insured for medical insurance. CIGNA, the third party administrator of the program, processes the claims for the Service Center's medical program. Monthly funding rates for medical insurance are \$2,074.69 for family coverage and \$700.01 for single coverage. The Service Center has stop loss coverage per family per year and a calculated aggregate maximum stop loss coverage for the 2013 plan year (July through June) that begins at \$6,421,342.

The claims liability of \$447,000 reported in the self insurance fund at June 30, 2013 for employee medical coverage was estimated by an independent health actuary and is based on the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.



## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2013*

Changes in claims activity for fiscal years 2013 and 2012 are as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2012	\$0	\$5,191,235	\$4,704,235	\$487,000
2013	487,000	6,081,500	6,121,500	447,000

### Note 11 – Interfund Transactions

Interfund balances at June 30, 2013, consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable		
	General Fund	Local Grants	Total
<i>Governmental Activities</i>			
General Fund	\$0	\$183,695	\$183,695
Local Grants	909,974	0	909,974
Title VI-B	644,609	0	644,609
<i>Non-Major Funds</i>			
Peer Assistance	621,400	0	621,400
Race to the Top	459,500	0	459,500
Title I	308,000	0	308,000
Improving Teacher Quality	155,151	0	155,151
Miscellaneous Federal Grants	104,400	0	104,400
Preschool Disabilities	80,800	0	80,800
Title III	1,000	0	1,000
<i>Total Governmental Activities</i>	\$3,284,834	\$183,695	\$3,468,529

The interfund payables are advances for grant monies that were not received by fiscal year end. The Service Center expects to receive the grant monies and repay the loans within the next fiscal year. The general fund interfund payable to the local grants special revenue fund is an outstanding payment due for help me grow home visitation services.

### Note 12 – Pension Plans

#### *School Employee Retirement System*

Plan Description – The Service Center participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309.

## **Educational Service Center of Cuyahoga County**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2013, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$2,269,849, \$1,495,360 and \$2,257,095, respectively. For fiscal year 2013, 93.48 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

#### ***State Teachers Retirement System***

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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

## **Educational Service Center of Cuyahoga County**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased one percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2013 plan members were required to contribute 10 percent of their annual covered salary. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Service Center's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$2,872,425 and \$46,083 for the fiscal year ended June 30, 2013, \$2,098,835 and \$139,183 for the fiscal year ended June 30, 2012, and \$2,815,039 and \$142,557 for the fiscal year ended June 30, 2011. For fiscal year 2013, 89.88 percent has been contributed for the DB plan and the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2013 were \$91,110 made by the Service Center and \$65,078 made by the plan members. In addition, member contributions of \$32,917 were made for fiscal year 2013 for the defined contribution portion of the Combined Plan.

### **Note 13 – Postemployment Benefits**

#### ***School Employee Retirement System***

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, 0.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2013, this amount was \$20,525. During fiscal year 2013, the Service Center paid \$41,600 in surcharge.

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

## **Educational Service Center of Cuyahoga County**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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The Service Center's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$27,723, \$153,068, and \$274,227, respectively. For fiscal year 2013, 93.48 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011, were \$128,220, \$89,486, and \$145,743, respectively. For fiscal year 2013, 93.48 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

#### ***State Teachers Retirement System***

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

**Funding Policy** – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The Service Center's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$224,501, \$172,155, and \$227,507, respectively. For fiscal year 2013, 89.88 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

#### **Note 14 – Other Employee Benefits**

##### ***Compensated Absences***

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

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

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2013*

### ***Life Insurance***

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

### ***Other Employer Health Benefits***

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

### **Note 15 – Long-Term Obligations**

The changes in the Service Center’s long-term obligations during fiscal year 2013 were as follows:

	Outstanding June 30, 2012	Additions	Deductions	Outstanding June 30, 2013	Due Within One Year
2013 Certificates of Participation	\$0	\$2,500,000	\$0	\$2,500,000	\$120,000
Claims Payable	487,000	6,081,500	6,121,500	447,000	400,000
Capital Leases	56,358	0	24,076	32,282	25,624
Compensated Absences	2,528,063	323,975	1,400,954	1,451,084	1,125,352
Total	\$3,071,421	\$8,905,475	\$7,546,530	\$4,430,366	\$1,670,976

The Certificates of Participation will be paid from the general fund. The claims payable will be paid from the employee benefits self insurance fund. The capital leases will be paid from the general fund and Title VI-B special revenue fund. Compensated absences will be paid from the general fund and the local grants and Title VI-B special revenue funds.

The Service Center issued \$2,500,000 in Certificates of Participation on May 22, 2013 for the purpose of various school improvements. The certificates were issued for a ten year period with a final maturity on December 1, 2022. The certificates will be paid from tuition and fees from the general fund.

Principal and interest requirements to retire the Certificates of Participation outstanding at June 30, 2013 are as follows:

Fiscal Year Ending June 30	2013 Certificates of Participation	
	Principal	Interest
2014	\$120,000	\$68,819
2015	235,000	62,219
2016	245,000	55,619
2017	250,000	48,812
2018	255,000	41,869
2019-2023	1,395,000	97,968
Total	\$2,500,000	\$375,306

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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### Note 16 – Capital Leases

The Service Center has entered into capitalized leases for copiers. The leases meet the criteria for capital leases. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds.

The assets acquired through the capital leases are as follows:

Assets:	
Copiers	\$108,420
Less: Accumulated Depreciation	<u>(65,052)</u>
Total Book Value as of June 30, 2013	<u><u>\$43,368</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2013.

	Governmental Activities
	<u>                    </u>
2014	\$26,916
2015	<u>6,729</u>
Total Minimum Lease Payments	33,645
Less: Amounts Representing Interest	<u>(1,363)</u>
Present Value of Minimum Lease Payments	<u><u>\$32,282</u></u>

### Note 17 – Jointly Governed Organizations

#### *North Coast Council (NCC)*

NCC is a jointly governed organization among sixteen school districts in Cuyahoga County and the Service Center. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports NCC based on a per pupil charge. The Service Center contributed \$85,164 to NCC during the fiscal year 2013.

The Governing Board consists of superintendents of each participating school district and the Service Center. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of NCC's financial statements, write to the Service Center at 6393 Oak Tree Blvd., Independence, Ohio 44131.

# Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2013*

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## ***North Coast Educational Media Center (Media Center)***

The Media Center is a jointly governed organization among seventeen school districts and the Service Center. The jointly governed organization was formed for the purpose of providing media services to the participants. Each of the districts supports the Media Center based on a per pupil charge. The Media Center is a jointly governed organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The Service Center did not make any contributions to the Media Center in the fiscal year 2013.

The Governing Board consists of a representative of each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of the Media Center's financial statements, write to the Service Center at 6393 Oak Tree Blvd., Independence, Ohio 44131.

## ***Positive Education Program (PEP)***

The PEP is a non-profit organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center did not make any contributions to the PEP in fiscal year 2013.

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

## **Note 18 - Significant Commitments**

### ***Encumbrances***

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General fund	\$971,165
Local Grants	713,488
Title VI-B	27,025
Other Governmental Funds	235,555
Total	<u><u>\$1,947,233</u></u>

# Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2013*

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## **Note 19 – Contingencies**

### ***Grants***

The Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2013, if applicable, cannot be determined at this time.

### ***Litigation***

The Service Center is a party to legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2013.



## Supplemental Information

**Educational Service Center of Cuyahoga County**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2013*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental			\$5,544,380	
Interest			36,523	
Tuition and Fees			31,179,980	
Rentals			711,586	
Charges for Services			12,473,165	
Extracurricular Activities			25	
Contributions and Donations			67,456	
Miscellaneous			1,208,649	
<i>Total Revenues</i>			<u>51,221,764</u>	
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	1,393,179	1,393,179	1,353,256	39,923
Special	29,334,112	29,334,112	28,545,387	788,725
Vocational	571,723	571,723	553,592	18,131
Support Services:				
Pupil	5,429,607	5,429,607	5,267,124	162,483
Instructional Staff	6,446,794	6,446,794	6,249,681	197,113
Board of Education	63,073	63,073	61,196	1,877
Administration	10,882,533	10,882,533	10,568,612	313,921
Fiscal	1,171,398	1,171,398	1,135,614	35,784
Business	48,785	48,785	47,238	1,547
Operation and Maintenance of Plant	1,712,284	1,712,284	1,663,464	48,820
Pupil Transportation	4,677	4,677	4,572	105
Central	44,154	44,154	42,798	1,356
Extracurricular Activities	64,269	64,269	62,234	2,035
Capital Outlay	6,154,966	6,154,966	6,154,966	0
<i>Total Expenditures</i>	<u>63,321,554</u>	<u>63,321,554</u>	<u>61,709,734</u>	<u>1,611,820</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(63,321,554)</u>	<u>(63,321,554)</u>	<u>(10,487,970)</u>	
<b>Other Financing Sources (Uses)</b>				
Advances In			3,375,000	
Advances Out			(2,369,100)	
<i>Total Other Financing Sources (Uses)</i>			<u>1,005,900</u>	
<i>Net Change in Fund Balance</i>			(9,482,070)	
<i>Fund Balance Beginning of Year</i>			20,411,987	
Prior Year Encumbrances Appropriated			<u>701,876</u>	
<i>Fund Balance End of Year</i>			<u><u>\$11,631,793</u></u>	

See accompanying notes to the supplemental information

**Supplemental Information**

**Educational Service Center of Cuyahoga County**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Local Grants Fund*  
*For the Fiscal Year Ended June 30, 2013*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental			\$8,620,657	
Contributions and Donations			17,600	
Miscellaneous			40,609	
<i>Total Revenues</i>			<u>8,678,866</u>	
<b>Expenditures</b>				
Current:				
Instruction:				
Student Intervention Services	16,086	16,086	19,735	(3,649)
Support Services:				
Pupil	18,091	18,091	33,563	(15,472)
Instructional Staff	272,967	272,967	431,234	(158,267)
Administration	1,451,745	1,451,745	1,679,356	(227,611)
Fiscal	35,366	35,366	34,615	751
Operation of Non-Instructional Services	4,614,308	4,614,308	4,787,421	(173,113)
<i>Total Expenditures</i>	<u>6,408,563</u>	<u>6,408,563</u>	<u>6,985,924</u>	<u>(577,361)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(6,408,563)</u>	<u>(6,408,563)</u>	1,692,942	
<b>Other Financing Sources (Uses)</b>				
Advances Out			(1,250,000)	
<i>Net Change in Fund Balance</i>			442,942	
<i>Fund Deficit Beginning of Year</i>			(2,202,535)	
Prior Year Encumbrances Appropriated			136,132	
<i>Fund Deficit End of Year</i>			<u>(\$1,623,461)</u>	

See accompanying notes to the supplemental information

**Supplemental Information**

**Educational Service Center of Cuyahoga County**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Title VI-B Fund*  
*For the Fiscal Year Ended June 30, 2013*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental			\$2,688,378	
<b>Expenditures</b>				
Current:				
Instruction:				
Special	330,510	330,510	317,036	13,474
Support Services:				
Pupil	56,187	56,187	53,998	2,189
Instructional Staff	1,363,439	1,363,439	1,307,017	56,422
Administration	334,613	334,613	320,976	13,637
Fiscal	113,380	113,380	108,667	4,713
Operation and Maintenance of Plant	79,026	79,026	75,741	3,285
Operation of Non-Instructional Services	525,506	525,506	503,852	21,654
<i>Total Expenditures</i>	<u>2,802,661</u>	<u>2,802,661</u>	<u>2,687,287</u>	<u>115,374</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(2,802,661)</u>	<u>(2,802,661)</u>	<u>1,091</u>	
<b>Other Financing Sources (Uses)</b>				
Advances In			644,000	
Advances Out			(329,000)	
<i>Total Other Financing Sources (Uses)</i>			<u>315,000</u>	
<i>Net Change in Fund Balance</i>			316,091	
<i>Fund Balance Beginning of Year</i>			270,556	
Prior Year Encumbrances Appropriated			78,909	
<i>Fund Balance End of Year</i>			<u>\$665,556</u>	

See accompanying notes to the supplemental information

# Educational Service Center of Cuyahoga County

*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2013*

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## **Note 1 – Budgetary Basis of Accounting**

### ***Budgetary Process***

The Service Center is not required under State statute to file budgetary information with the State Department of Education. However, the Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources. The resolution sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

### ***Budgetary Basis of Accounting***

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

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

**Educational Service Center of Cuyahoga County**

*Notes to the Supplemental Information*

*For the Fiscal Year Ended June 30, 2013*

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The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statements on a fund type basis for the major funds.

	Net Change in Fund Balance		
	<u>General</u>	<u>Local Grants</u>	<u>Title VI-B</u>
GAAP Basis	(\$8,594,949)	\$2,565,496	\$49,492
Net Adjustment for Revenue Accruals	(252,473)	(337,952)	0
Beginning Fair Value Adjustment for Investments	220	0	0
Beginning Unrecorded Cash	620,993	0	29,168
Ending Unrecorded Cash	(757,925)	0	(37,315)
Advance In	3,375,000	0	644,000
Net Adjustment for Expenditure Accruals	(532,671)	178,886	(13,229)
Advance Out	(2,369,100)	(1,250,000)	(329,000)
Adjustment for Encumbrances	<u>(971,165)</u>	<u>(713,488)</u>	<u>(27,025)</u>
Budget Basis	<u>(\$9,482,070)</u>	<u>\$442,942</u>	<u>\$316,091</u>

**Educational Service Center of Cuyahoga County**

*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2013*

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

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Grant Year	CFDA Number	Receipts	Disbursements
<b><u>U.S. Department of Agriculture:</u></b>				
<b><i>Passed-Through Ohio Department of Education:</i></b>				
Child Nutrition Cluster:				
Federal School Breakfast	2013	10.553	\$142,827	\$142,827
National School Lunch Program	2013	10.555	<u>224,817</u>	<u>224,817</u>
<b>Total U.S. Department of Agriculture</b>			367,644	367,644
<b><u>U.S. Department of Education:</u></b>				
<b><i>Direct Program:</i></b>				
Fund for the Improvement of Education: Teaching American History	2012	84.215X	<u>132,687</u>	<u>17,184</u>
Total Funds for the Improvement of Education			132,687	17,184
<b><i>Passed-Through Ohio Department of Education:</i></b>				
Title I Cluster:				
Title I-Grants to Local Educational Agencies	2012	84.010	18,703	21,044
Title I-Grants to Local Educational Agencies	2013	84.010	<u>38,312</u>	<u>51,545</u>
Total Title I Cluster			57,015	72,589
Special Education Cluster:				
Special Education - Grants to States (IDEA, Part B)	2012	84.027	326,895	354,484
Special Education - Grants to States (IDEA, Part B)	2013	84.027	<u>2,361,484</u>	<u>2,305,780</u>
Subtotal Special Education - Grants to States (IDEA, Part B)			2,688,379	2,660,264
Special Education - Preschool Grants (IDEA Preschool)	2012	84.173	18,257	10,115
Special Education - Preschool Grants (IDEA Preschool)	2013	84.173	<u>35,344</u>	<u>41,790</u>
Subtotal Special Education - Preschool Grants (IDEA Preschool)			53,601	51,905
Total Special Education Cluster (IDEA)			<u>2,741,980</u>	<u>2,712,169</u>
Special Education-State Personnel Development	2012	84.323	50,559	27,450
Special Education-State Personnel Development	2013	84.323	<u>58,225</u>	<u>50,467</u>
Total Special Education-State Personnel Development			108,784	77,917
Improving Teacher Quality State Grants, Title II-A	2012	84.367	180,002	146,463
Improving Teacher Quality State Grants, Title II-A	2013	84.367	<u>117,767</u>	<u>176,915</u>
Total Improving Teacher Quality State Grants, Title II-A			297,769	323,378
English Language Acquisition Grant	2013	84.365	<u>135,037</u>	<u>133,667</u>
Total English Language Acquisition Grant			135,037	133,667
ARRA - Race To The Top	2012	84.395	105,371	93,805
ARRA - Race To The Top	2013	84.395	<u>569,742</u>	<u>669,752</u>
Total ARRA - Race To The Top			675,113	763,557
<b>Total U. S. Department of Education</b>			4,148,385	4,100,461
<b><u>U.S. Department of Health and Human Services:</u></b>				
<b><i>Passed Through Ohio Department of Job and Family Services:</i></b>				
Refugee and Entrant Assistance Grant	2012	93.576	199,529	222,457
Refugee and Entrant Assistance Grant	2013	93.576	<u>52,572</u>	<u>52,761</u>
Total Refugee Impact and Entrant Assistance			<u>252,101</u>	<u>275,218</u>
<b>Total U.S. Department of Health and Human Services</b>			252,101	275,218
Total Expenditures of Federal Awards			<u>\$ 4,768,130</u>	<u>\$ 4,743,323</u>

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - SUBRECIPIENTS**

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

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

**NOTE C - CHILD NUTRITION CLUSTER**

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





# Dave Yost • Auditor of State

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

Educational Service Center of Cuyahoga County  
Cuyahoga County  
6393 Oak Tree Boulevard  
Independence, Ohio 44131

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Cuyahoga County, Cuyahoga County, (the Service Center) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated March 20, 2014.

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

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

March 20, 2014



# Dave Yost • Auditor of State

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

Educational Service Center of Cuyahoga County  
Cuyahoga County  
6393 Oak Tree Boulevard  
Independence, Ohio 44131

To the Governing Board:

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

We have audited the Educational Service Center of Cuyahoga County's (the Service Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Service Center's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings and questioned costs identifies the Service Center's major federal programs.

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

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

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

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

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

***Basis for Qualified Opinion on Special Education Cluster, Improving Teacher Quality, and Child Nutrition Cluster***

As described in Findings 2013-001 and 2013-002 in the accompanying schedule of findings and questioned costs, the Service Center did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2013-001	84.027, 84.173, & 84.367	Special Education Cluster, Improving Teacher Quality	Allowable Costs/Cost Principles
2013-002	10.553 & 10.555	Child Nutrition Cluster	Subrecipient Monitoring

Compliance with these requirements is necessary, in our opinion, for the Service Center to comply with the requirements applicable to these programs.

***Qualified Opinion on Special Education Cluster, Improving Teacher Quality, and Child Nutrition Cluster***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Special Education Cluster, Improving Teacher Quality, and Child Nutrition Cluster* paragraph, the Educational Service Center of Cuyahoga County complied, in all material respects, with the requirements referred to above that could directly and materially affect its Special Education Cluster, Improving Teacher Quality, and Child Nutrition Cluster programs for the year ended June 30, 2013.

***Unmodified Opinion on Race to the Top***

In our opinion, the Educational Service Center of Cuyahoga County complied in all material respects with the requirements referred to above that could directly and materially affect its Race to the Top program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

***Other Matters***

The Service Center's responses to our noncompliance findings are described in the accompanying schedule of findings and questioned costs. We did not audit the Service Center's responses and, accordingly, we express no opinion on them.

***Report on Internal Control over Compliance***

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002 to be material weaknesses.

The Service Center's responses to our internal control over compliance findings are described in the accompanying schedule of findings and questioned costs. We did not audit the Service Center's responses and, accordingly, we express no opinion on them.

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



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

March 20, 2014

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified – Child Nutrition Cluster, Special Education Cluster, and Improving Teacher Quality State Grants Unmodified – Race to the Top
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Cluster, CFDA #'s 84.027 and 84.173  Child Nutrition Cluster, CFDA #'s 10.553 and 10.555  Race to the Top, CFDA # 84.395  Improving Teacher Quality State Grants, CFDA # 84.367
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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JUNE 30, 2013  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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None

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	2013-001
<b>CFDA Title and Number</b>	Special Education Cluster (CFDA # 84.027 and 84.173) and Improving Teacher Quality State Grants to Local Education Agencies (CFDA # 84.367)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	United State Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

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

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

2 CFR Part 225, Appendix B paragraph 8.h.3 states, “employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.”

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



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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013  
(Continued)

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

(Continued)

**FINDING NUMBER 2013-001**  
(Continued)

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

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

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

During our testing, we noted one employee partially paid from Title VI-B Grant funds for which no time and effort documentation was maintained. In addition, we noted one employee paid solely from Title VI-B Grant funds and one employee paid solely from Title II-A Grant funds, respectively, in which no time and effort documentation or semi-annual certifications were maintained. Furthermore, no additional mitigating controls were in place or documented for these two employees. The amount of monies charged to Title VI-B and Title II-A Grants for salaries in which there was no semi-annual certifications or time and effort documentation provided totaled \$118,664. As a result, the costs for these salaries as charged to the Special Education and Improving Teacher Quality Grants are considered to be questioned costs.

We recommend Service Center employees expected to work solely on a single Federal award or cost objective charge for their salaries and wages be supported by periodic certifications or kept on time and effort logs that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semiannually and signed by the employee and supervisory official having firsthand knowledge of the work performed by the employee.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
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**FINDING NUMBER 2013-001  
(Continued)**

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

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

**Officials Response:** The Service Center did not correct any noncompliance issues prior to the completion of the fiscal year 2012 audit in March 2013. Since that time, the Service Center now monitors all Federal grants and keeps logs for all individuals paid from each grant. Some instances cited in this finding were found in the earlier part of fiscal year 2013, prior to the completion of the prior audit. There was one instance after March 2013 that needs to correct and going forward we will have procedures in place to periodically review individual time and effort logs for employees working on federal programs. We will continue to monitor time and effort logs throughout the year. We expect to have this finding corrected for fiscal year 2014.

<b>Finding Number</b>	2013-002
<b>CFDA Title and Number</b>	Child Nutrition Cluster (CFDA # 10.553 and 10.555)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	United State Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Food Service Subrecipient Monitoring – Material Noncompliance and Material Weakness**

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

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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013  
(Continued)

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

(Continued)

**FINDING NUMBER 2013-002**  
(Continued)

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

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

**Officials Response:**

Since March 2013, the Service Center has reviewed monthly reports from PEP to the cash being received by the Service Center. We will now begin to develop procedures where the Service Center can have access to additional detail of the monthly reports.

Also, the Service Center meets on a quarterly basis with PEP officials to review any issues that need to be addressed. In the future, as part of these meetings, the Service Center and representatives from PEP will discuss the audit report and any findings, recommendations, etc. The Treasurer of the Service Center will document these meetings to comply with the monitoring and review of PEP's Single Audit. We expect to have this comment in compliance for fiscal year 2014.

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

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-001	<p>Since March 2013, the Service Center monitors all Federal grants and keeps logs for all individuals paid from each grant. There was one instance after March 2013 that needs to correct and going forward we will have procedures in place to periodically review individual time and effort logs for employees working on federal programs. We will continue to monitor time and effort logs throughout the year. We expect to have this finding corrected for fiscal year 2014.</p>	Immediately	Treasurer
2013-002	<p>Since March 2013, the Service Center has reviewed monthly reports from PEP to the cash being received by the Service Center. We will now begin to develop procedures where the Service Center can have access to additional detail of the monthly reports.</p> <p>Also, the Service Center meets on a quarterly basis with PEP officials to review any issues that need to be addressed. In the future, as part of these meetings, the Service Center and representatives from PEP will discuss the audit report and any findings, recommendations, etc. The Treasurer of the Service Center will document these meetings to comply with the monitoring and review of PEP's Single Audit. We expect to have this comment in compliance for fiscal year 2014.</p>	Immediately	Treasurer

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY  
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**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2012-001	Food Service Subrecipient Monitoring	No	Not Corrected, reissued as Finding Number 2013-002
2012-002	Allowable Costs/Cost Principles – Time and Effort Documentation	No	Not Corrected, reissued as Finding Number 2013-001



# Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 10, 2014**