



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2012



Dave Yost • Auditor of State

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

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Educational Service Center of Cuyahoga County, Cuyahoga County, Ohio (the Service Center), as of and for the year ended June 30, 2012, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Cuyahoga County, Cuyahoga County, Ohio, as of June 30, 2012, and the respective changes in financial position and where applicable cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2013, on our consideration Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

March 7, 2013

Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited*

The management's discussion and analysis of the Educational Service Center of Cuyahoga County's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2012. 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 2012 include:

- In fiscal year 2012, total assets and liabilities decreased from 2011. This resulted in an overall increase in net assets of \$882,613. This increase is largely due to the Service Center fulfilling its capital lease obligation for capital improvements made to the Service Center's buildings.
- Total revenues increased from 2011. This included a \$904,227 increase in program revenues offset by a decrease in general revenues of \$119,895. This can mainly be contributed to an increase in tuition and fees received over the previous year.
- During fiscal year 2012, the Service Center implemented an employee medical benefits self insurance program. Through this program, employees will pay a premium into the Service Centers employee medical self insurance fund.
- The Service Center is committed to meeting the academic needs of our students providing them with updated instructional materials to compete in a global environment.

Using this Annual Financial Report

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

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

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

Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited*

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

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

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

Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited*

The Service Center as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the Service Center as a whole. Table 1 provides a summary of the Service Center's net assets for 2012 compared to 2011:

(Table 1)
Net Assets

	<u>Governmental Activities</u>		
	<u>2012</u>	<u>2011</u>	<u>Change</u>
Assets			
Current and Other Assets	\$28,956,923	\$29,623,919	(\$666,996)
Capital Assets, Net	<u>5,849,303</u>	<u>6,093,727</u>	<u>(244,424)</u>
<i>Total Assets</i>	<u>34,806,226</u>	<u>35,717,646</u>	<u>(911,420)</u>
Liabilities			
Current and Other Liabilities	5,653,622	6,687,235	(1,033,613)
Long-Term Liabilities:			
Due Within One Year	1,827,104	1,767,655	59,449
Due in More than One Year	<u>1,244,317</u>	<u>2,064,186</u>	<u>(819,869)</u>
<i>Total Liabilities</i>	<u>8,725,043</u>	<u>10,519,076</u>	<u>(1,794,033)</u>
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	5,792,945	4,357,580	1,435,365
Restricted	259,056	406,540	(147,484)
Unrestricted	<u>20,029,182</u>	<u>20,434,450</u>	<u>(405,268)</u>
<i>Total Net Assets</i>	<u>\$26,081,183</u>	<u>\$25,198,570</u>	<u>\$882,613</u>

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

Liabilities decreased mainly due to the Service Center fully paying off the remainder of the 2006 capital lease agreement for capital improvements made to its buildings, in addition, 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 decrease in liabilities resulted in an increase of total net assets for fiscal year 2012.

Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited*

Table 2 shows the change in net assets for fiscal year 2012 as compared to fiscal year 2011.

(Table 2)
Change in Net Assets
Governmental Activities

	2012	2011	Change
Revenues			
<i>Program Revenues:</i>			
Charges for Services and Sales	\$48,659,422	\$47,631,053	\$1,028,369
Operating Grants and Contributions	13,367,161	13,491,303	(124,142)
<i>Total Program Revenues</i>	<u>62,026,583</u>	<u>61,122,356</u>	<u>904,227</u>
<i>General Revenues:</i>			
Grants and Entitlements	5,554,650	5,737,453	(182,803)
Investment Earnings	58,123	69,468	(11,345)
Unrestricted Contributions and Donations	77,781	32,794	44,987
Miscellaneous	693,074	663,808	29,266
<i>Total General Revenues</i>	<u>6,383,628</u>	<u>6,503,523</u>	<u>(119,895)</u>
Total Revenues	<u>68,410,211</u>	<u>67,625,879</u>	<u>784,332</u>
Program Expenses			
Instruction	29,016,333	29,242,824	(226,491)
<i>Support Services:</i>			
Pupil and Instructional Staff	17,378,498	19,901,946	(2,523,448)
Board of Education, Administration, Fiscal and Business	13,449,053	13,129,895	319,158
Operation and Maintenance of Plant	1,048,362	1,003,308	45,054
Pupil Transportation	2,753	4,531	(1,778)
Central	85,343	161,821	(76,478)
Operation of Noninstructional Services	6,084,336	6,210,536	(126,200)
Extracurricular Activities	62,195	61,450	745
Interest and Fiscal Charges	400,725	82,625	318,100
<i>Total Program Expenses</i>	<u>67,527,598</u>	<u>69,798,936</u>	<u>(2,271,338)</u>
Increase (Decrease) in Net Assets	882,613	(2,173,057)	3,055,670
<i>Net Assets Beginning of Year</i>	<u>25,198,570</u>	<u>27,371,627</u>	<u>(2,173,057)</u>
<i>Net Assets End of Year</i>	<u><u>\$26,081,183</u></u>	<u><u>\$25,198,570</u></u>	<u><u>\$882,613</u></u>

Program revenues increased due to increases in the number and amount of charges for services which was offset by decreases in operating grants and contributions. The Service Center derives significant income from fiscal fees and administering various grants and programs. The overall economy in Ohio has forced the State Department of Education and local school district clients to cut back thus impacting the Service Center's billing for basic services over the last few years. The Service Center provides many services that are the first to be cut in tough economic times which was apparent in fiscal year 2011. Some of these services were utilized again in fiscal year 2012 but not at the level of a few years ago. Personnel and program costs are tied directly to grant funding. Operation of non-instructional services expense decreased in fiscal year 2012 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, 2012
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 (\$5,501,015) *Net Cost of Services 2012* tells the reader that overall these services are not self-supporting and must rely on unrestricted State entitlements and unrestricted net assets to operate this fiscal year.

(Table 3)
Governmental Activities

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
Instruction	\$29,016,333	\$7,732,165	\$29,242,824	\$1,899,435
Support Services:				
Pupil and Instructional Staff	17,378,498	(221,387)	19,901,946	1,209,837
Board of Education, Administration, Fiscal and Business	13,449,053	(13,449,053)	13,129,895	(13,129,895)
Operation and Maintenance of Plant	1,048,362	(456,328)	1,003,308	(139,017)
Pupil Transportation	2,753	(902)	4,531	48
Central	85,343	(32,334)	161,821	(39,443)
Operation of Non-Instructional Services	6,084,336	1,347,212	6,210,536	1,604,400
Extracurricular Activities	62,195	(19,663)	61,450	680
Interest and Fiscal Charges	400,725	(400,725)	82,625	(82,625)
<i>Totals</i>	<u>\$67,527,598</u>	<u>(\$5,501,015)</u>	<u>\$69,798,936</u>	<u>(\$8,676,580)</u>

The Service Center's Funds

Information about the Service Center's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$66,845,748 and total expenditures of \$69,993,850, leaving a fund balance at fiscal year-end of \$18,815,393.

The net change in fund balance for the year was most significant in both the general fund with a decrease of \$1,173,148 and the local grants special revenue fund with a decrease of \$2,089,740. In comparison, all funds decreased a total of \$3,148,102. This decrease in fund balance can be contributed to decreases in intergovernmental revenues and interest. The general fund is the primary source of start up funds for many of the other grant activities. Fast response to client needs and starting up an activity before initial funding arrives is what separates the Service Center from its competition. The down side to such a philosophy is that the Service Center will be an early barometer to cut backs and difficult economic times. The nature of school employment law does make the Service Center vulnerable to second guessing the best management approach to riding out the down turn.

Educational Service Center of Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The local grants special revenue fund had total revenues of \$5,437,872. 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 2012.

The title VI-B special revenue fund had an increase in fund balance of \$166,431. This was due to additional grant monies being rewarded by the Ohio Department of Education in fiscal year 2012 that they did not receive in fiscal year 2011. The net effect of the revenues received and the expenditures incurred, leaves the title VI-B special revenue fund with a deficit fund balance at the end of fiscal year 2012.

Capital Assets

Table 4 shows fiscal year 2012 balances compared to fiscal year 2011. More detailed information is presented in Note 9 of the notes to the basic financial statements.

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

	Governmental Activities	
	2012	2011
Land	\$536,778	\$536,778
Buildings and Improvements	4,851,764	5,052,899
Furniture and Equipment	460,761	504,050
<i>Total Capital Assets</i>	<u>\$5,849,303</u>	<u>\$6,093,727</u>

Debt

During 2012, the Service Center paid the remaining balance of the capital lease entered into during 2006 for capital improvements. At the end of fiscal year 2012, the outstanding balance on the leases was \$56,358. More detailed information is presented in Note 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.

Fiscal year 2012 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.

Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited*

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

Contacting the Service Center's Financial Management

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

Educational Service Center of Cuyahoga County

Statement of Net Assets

June 30, 2012

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$23,627,599
Accrued Interest Receivable	1,948
Accounts Receivable	1,937
Intergovernmental Receivable	5,325,439
Nondepreciable Capital Assets	536,778
Depreciable Capital Assets, Net	5,312,525
<i>Total Assets</i>	<u>34,806,226</u>
Liabilities	
Accounts Payable	350,772
Accrued Wages and Benefits	4,028,224
Intergovernmental Payable	1,274,626
Long-Term Liabilities:	
Due Within One Year	1,827,104
Due In More Than One Year	1,244,317
<i>Total Liabilities</i>	<u>8,725,043</u>
Net Position	
Invested in Capital Assets, Net of Related Debt	5,792,945
Restricted for Other Purposes	259,056
Unrestricted	20,029,182
<i>Total Net Assets</i>	<u><u>\$26,081,183</u></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, 2012

	Program Revenues			Net Revenue (Expense) and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$833,752	\$493,436	\$145,352	(\$194,964)
Special	27,729,919	34,163,286	1,569,297	8,002,664
Vocational	452,662	377,127	0	(75,535)
Support Services:				
Pupil	6,070,547	4,467,388	979,910	(623,249)
Instructional Staff	11,307,951	8,421,751	3,288,062	401,862
Board of Education	86,016	0	0	(86,016)
Administration	12,301,696	0	0	(12,301,696)
Fiscal	1,039,966	0	0	(1,039,966)
Business	21,375	0	0	(21,375)
Operation and Maintenance of Plant	1,048,362	592,034	0	(456,328)
Pupil Transportation	2,753	1,851	0	(902)
Central	85,343	53,009	0	(32,334)
Operation of Non-Instructional Services	6,084,336	47,008	7,384,540	1,347,212
Extracurricular Activities	62,195	42,532	0	(19,663)
Interest and Fiscal Charges	400,725	0	0	(400,725)
<i>Totals</i>	<u>\$67,527,598</u>	<u>\$48,659,422</u>	<u>\$13,367,161</u>	<u>(5,501,015)</u>
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				5,554,650
Investment Earnings				58,123
Unrestricted Contributions and Donations				77,781
Miscellaneous				<u>693,074</u>
<i>Total General Revenues</i>				<u>6,383,628</u>
Change in Net Assets				882,613
<i>Net Assets Beginning of Year</i>				<u>25,198,570</u>
<i>Net Assets End of Year</i>				<u>\$26,081,183</u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Balance Sheet

Governmental Funds

June 30, 2012

	<u>General</u>	<u>Local Grants</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$19,597,832	\$0	\$378,837	\$1,629,751	\$21,606,420
Receivables:					
Accrued Interest	1,948	0	0	0	1,948
Accounts	1,937	0	0	0	1,937
Intergovernmental	3,226,828	1,421,559	326,894	350,158	5,325,439
Interfund Receivable	5,444,365	0	0	0	5,444,365
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	70,923	0	0	0	70,923
<i>Total Assets</i>	<u>\$28,343,833</u>	<u>\$1,421,559</u>	<u>\$705,731</u>	<u>\$1,979,909</u>	<u>\$32,451,032</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$187,350	\$109,641	\$5,769	\$48,012	\$350,772
Accrued Wages and Benefits	3,704,330	15,782	172,153	135,959	4,028,224
Intergovernmental Payable	1,143,225	6,262	42,199	82,940	1,274,626
Interfund Payable	0	3,316,641	329,000	1,798,724	5,444,365
Deferred Revenue	705,876	1,383,523	326,894	121,359	2,537,652
<i>Total Liabilities</i>	<u>5,740,781</u>	<u>4,831,849</u>	<u>876,015</u>	<u>2,186,994</u>	<u>13,635,639</u>
Fund Balances					
Nonspendable	70,923	0	0	0	70,923
Restricted	0	0	0	173,963	173,963
Assigned	6,071,866	0	0	0	6,071,866
Unassigned (Deficit)	16,460,263	(3,410,290)	(170,284)	(381,048)	12,498,641
<i>Total Fund Balances (Deficit)</i>	<u>22,603,052</u>	<u>(3,410,290)</u>	<u>(170,284)</u>	<u>(207,085)</u>	<u>18,815,393</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$28,343,833</u>	<u>\$1,421,559</u>	<u>\$705,731</u>	<u>\$1,979,909</u>	<u>\$32,451,032</u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities*
 June 30, 2012

Total Governmental Fund Balances	\$18,815,393
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*Amounts reported for governmental activities in the
 statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	5,849,303
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Tuition and Fees	334,293
Charges for Services	371,583
Grants	1,831,776

Total	2,537,652
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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 assets.

Net Assets	1,463,256
Claims Payable	487,000

Total	1,950,256
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Claims Payable	(487,000)
Compensated Absences	(2,528,063)
Capital Lease	(56,358)

Total	(3,071,421)
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<i>Net Assets of Governmental Activities</i>	<u><u>\$26,081,183</u></u>
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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, 2012

	General	Local Grants	Title VI-B	Other Governmental Funds	Total Governmental Funds
Revenues					
Intergovernmental	\$6,231,113	\$5,425,872	\$3,299,931	\$2,883,722	\$17,840,638
Interest	58,123	0	0	0	58,123
Tuition and Fees	36,455,863	0	0	0	36,455,863
Rentals	531,759	0	0	0	531,759
Charges for Services	11,187,785	0	0	0	11,187,785
Extracurricular Activities	25	700	0	0	725
Contributions and Donations	66,481	11,300	0	0	77,781
Miscellaneous	693,074	0	0	0	693,074
<i>Total Revenues</i>	<u>55,224,223</u>	<u>5,437,872</u>	<u>3,299,931</u>	<u>2,883,722</u>	<u>66,845,748</u>
Expenditures					
Current:					
Instruction:					
Regular	734,060	0	0	139,784	873,844
Special	26,741,435	0	436,960	365,469	27,543,864
Vocational	560,466	0	0	0	560,466
Support Services:					
Pupil	5,263,804	289,602	113,947	675,405	6,342,758
Instructional Staff	9,135,515	5,994	1,359,697	1,282,803	11,784,009
Board of Education	86,016	0	0	0	86,016
Administration	9,923,943	1,652,366	481,133	322,355	12,379,797
Fiscal	676,130	10,700	218,270	107,804	1,012,904
Business	21,375	0	0	0	21,375
Operation and Maintenance of Plant	958,473	0	71,371	36,342	1,066,186
Pupil Transportation	2,753	0	0	0	2,753
Central	78,858	0	0	5,405	84,263
Operation of Non-Instructional Services	78,883	5,568,950	445,073	0	6,092,906
Extracurricular Activities	62,195	0	0	0	62,195
Debt Service:					
Principal Retirement	1,673,866	0	5,923	0	1,679,789
Interest and Fiscal Charges	399,599	0	1,126	0	400,725
<i>Total Expenditures</i>	<u>56,397,371</u>	<u>7,527,612</u>	<u>3,133,500</u>	<u>2,935,367</u>	<u>69,993,850</u>
<i>Net Change in Fund Balances</i>	(1,173,148)	(2,089,740)	166,431	(51,645)	(3,148,102)
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>23,776,200</u>	<u>(1,320,550)</u>	<u>(336,715)</u>	<u>(155,440)</u>	<u>21,963,495</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$22,603,052</u>	<u>(\$3,410,290)</u>	<u>(\$170,284)</u>	<u>(\$207,085)</u>	<u>\$18,815,393</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, 2012*

Net Change in Fund Balances - Total Governmental Funds (\$3,148,102)

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

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

Capital Asset Additions	125,398	
Current Year Depreciation	(369,195)	
Total		(243,797)

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. (627)

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

Tuition and Fees	135,325	
Charges for Services	347,965	
Grants	1,081,173	
Total		1,564,463

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,679,789

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. (432,369)

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. 1,463,256

Change in Net Assets of Governmental Activities \$882,613

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Statement of Fund Net Assets

Internal Service Fund

June 30, 2012

Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,950,256</u>
Liabilities	
<i>Current Liabilities</i>	
Claims Payable	400,000
<i>Long-Term Liabilities</i>	
Claims Payable	<u>87,000</u>
<i>Total Liabilities</i>	<u>487,000</u>
Net Assets	
Unrestricted	<u><u>\$1,463,256</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 Assets

Internal Service Fund

For the Fiscal Year Ended June 30, 2012

Operating Revenues	
Charges for Services	\$7,227,494
	<hr/>
Operating Expenses	
Purchased Services	573,003
Claims	5,191,235
	<hr/>
<i>Total Operating Expenses</i>	<i>5,764,238</i>
	<hr/>
<i>Change in Net Assets</i>	<i>1,463,256</i>
<i>Net Assets Beginning of Year</i>	<i>0</i>
	<hr/>
<i>Net Assets End of Year</i>	<i>\$1,463,256</i>
	<hr/> <hr/>

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, 2012

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Interfund Services Provided	\$7,227,494
Cash Payments for Claims	(4,704,235)
Cash Payments for Services	<u>(573,003)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	1,950,256
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$1,950,256</u></u>

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

<i>Operating Income</i>	\$1,463,256
Adjustments	
Increase in Claims Payable	<u>487,000</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$1,950,256</u></u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2012

Assets	
Equity in Pooled Cash and Cash Equivalents	\$461,445
Intergovernmental Receivable	<u>26,327</u>
<i>Total Assets</i>	<u><u>\$487,772</u></u>
Liabilities	
Accounts Payable	\$12,578
Intergovernmental Payable	5,211
Undistributed Monies	<u>469,983</u>
<i>Total Liabilities</i>	<u><u>\$487,772</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, 2012

Note 1 – Description of the Service Center

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

The Service Center operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State or federal agencies to one exempted village, three local, and twenty-seven city school districts and to two career centers. The Board controls the Service Center's staff who provide services that impact over 347,000 students 0 to 18 years of age attending 31 school districts. The Service Center's special education services also draw students from over 60 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. 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 Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the Service Center's accounting policies are described below.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

Basis of Presentation

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

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

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

Fund Accounting

The Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the Service Center are divided into 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 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, 2012

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.

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

Measurement Focus

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

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 revenue, and in the presentation of expenses versus expenditures.

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

During fiscal year 2012, investments were limited to STAR Ohio and Commercial Paper. Investments are reported at fair value.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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, 2012.

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 2012 amounted to \$58,123 which includes \$5,386 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 assets but are not reported in the fund financial statements.

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

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

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

Interfund Balances

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

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 assets statement.

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include the Refugee Children School Impact, professional development and development of procedural safeguards.

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

Fund Balance

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

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

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by 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.

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 Revenue 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.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 2012, the Service Center has implemented Governmental Accounting Standard Board (GASB) Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53" Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider.

This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the Service Center's financial statements.

Note 4 - Fund Balances

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

Fund Balances	General	Local Grants	Title VI-B	Other Governmental Funds	Total
<i>Nonspendable</i>					
Unclaimed Monies	\$70,923	\$0	\$0	\$0	\$70,923
<i>Restricted for</i>					
Technology Improvements	0	0	0	24,202	24,202
Special Instruction	0	0	0	149,761	149,761
<i>Total Restricted</i>	0	0	0	173,963	173,963
<i>Assigned to</i>					
Positive Education Programs	5,440,408	0	0	0	5,440,408
Other Purposes	631,458	0	0	0	631,458
<i>Total Assigned</i>	6,071,866	0	0	0	6,071,866
<i>Unassigned (Deficit)</i>	16,460,263	(3,410,290)	(170,284)	(381,048)	12,498,641
<i>Total Fund Balances</i>	\$22,603,052	(\$3,410,290)	(\$170,284)	(\$207,085)	\$18,815,393

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

Note 5 – Fund Deficits

Fund balances at June 30, 2012, included the following individual fund deficits:

Special Revenue Funds:

Local Grants	\$3,410,290
Title VI-B	170,284
Peer Assistance	149,214
Improving Teacher Quality	57,233
Race to the Top	55,496
Miscellaneous Federal Grants	36,865
Preschool Disabilities	11,349

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;
3. Written repurchase agreements in the securities listed above;

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

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, \$22,530,782 of the Service Center's bank balance of \$27,614,225 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, 2012, the Service Center had Commercial Paper and STAR Ohio investments. All investments are in an internal investment pool.

	Fair Value	Maturity	Standard & Poor's Rating	Percentage of Total Investments
STAR Ohio	\$90,952	Average 52.5 Days	AAAm	N/A
Commercial Paper	998,670	Less than one year	A1	91.65%
Total	\$1,089,622			

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, 2012*

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

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, 2012, 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:

Governmental Activities	Amounts
Positive Education Program	\$3,226,828
Local Grants	1,421,559
Title VI-B Grant Subsidy	326,894
Miscellaneous Federal Grant Subsidy	170,769
Title I Grant Subsidy	127,292
Peer Assistance Grant Subsidy	33,840
Preschool Disabilities Grant Subsidy	18,257
Total	\$5,325,439

Note 8 – State Funding

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

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

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 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, 2012, was as follows:

	Balance 6/30/11	Additions	Deletions	Balance 6/30/12
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$536,778	\$0	\$0	\$536,778
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	6,125,046	538	0	6,125,584
Furniture and Equipment	1,188,497	124,860	(1,636)	1,311,721
<i>Total Capital Assets, being depreciated</i>	<u>7,313,543</u>	<u>125,398</u>	<u>(1,636)</u>	<u>7,437,305</u>
Less Accumulated Depreciation				
Buildings and Improvements	(1,072,147)	(201,673)	0	(1,273,820)
Furniture and Equipment	(684,447)	(167,522)	1,009	(850,960)
Total Accumulated Depreciation	<u>(1,756,594)</u>	<u>(369,195)</u>	<u>1,009</u>	<u>(2,124,780)</u>
Total Capital Assets, being depreciated, net	<u>5,556,949</u>	<u>(243,797)</u>	<u>(627)</u>	<u>5,312,525</u>
Governmental Activities Capital Assets, Net	<u>\$6,093,727</u>	<u>(\$243,797)</u>	<u>(\$627)</u>	<u>\$5,849,303</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$26,945
Special	20,452
Support Services:	
Pupil	13,848
Instructional Staff	43,454
Administration	235,601
Fiscal	27,815
Central	1,080
Total Depreciation Expense	<u>\$369,195</u>

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 2012, the Service Center contracted with The Netherlands 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

During fiscal year 2012, the Service Center became 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 \$1,983.53 for family coverage and \$670.11 for single coverage. The Service Center has stop loss coverage that begins at \$125,000 per family per year and a calculated aggregate maximum stop loss coverage for the 2012 plan year (July through June) that begins at \$6,421,342.

The claims liability of \$487,000 reported in the self insurance fund at June 30, 2012 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, 2012*

Changes in claims activity for fiscal year 2012 are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2012	\$0	\$5,191,235	\$4,704,235	\$487,000

Note 11 – Interfund Transactions

Interfund balances at June 30, 2012, consist of the following individual fund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable General Fund</u>
<i>Governmental Activities</i>	
Local Grants	\$1,250,000
Title VI-B	329,000
<i>Non-Major Funds</i>	
Local Grants	2,066,641
Title I	571,092
Miscellaneous Federal Grants	450,102
Improving Teacher Quality	351,350
Race to the Top	200,000
Peer Assistance	175,180
Title III	25,000
Preschool Disabilities	25,000
Alternative Schools	1,000
<i>Total Governmental Activities</i>	<u><u>\$5,444,365</u></u>

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

Note 12 – Pension Plans

School Employee Retirement System

Plan Description – The Service Center participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.30 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, 2012, 2011, and 2010 were \$1,495,360, \$2,257,095 and \$2,462,987, respectively. For fiscal year 2012, 90.41 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

State Teachers Retirement System

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

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

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

The Service Center's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$2,098,835 and \$139,183 for the fiscal year ended June 30, 2012, \$2,815,039 and \$142,557 for the fiscal year ended June 30, 2011, and \$2,911,452 and \$162,685 for the fiscal year ended June 30, 2010. For fiscal year 2012, 86.80 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 2011 and 2010.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2012 were \$87,221 made by the Service Center and \$62,300 made by the plan members. In addition, member contributions of \$37,116 were made for fiscal year 2012 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 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 2012, 0.55 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 2012, this amount was \$35,800. During fiscal year 2012, the Service Center paid \$260,467 in surcharge.

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

The Service Center's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$153,068, \$274,227, and \$395,876, respectively. For fiscal year 2012, 90.41 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were \$89,486, \$145,743, and \$146,469 respectively. For fiscal year 2012, 90.41 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, 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, 2012, 2011, and 2010 were \$172,155, \$227,507, and \$223,958 respectively. For fiscal year 2012, 86.80 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Note 14 – Other Employee Benefits

Compensated Absences

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

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

Life Insurance

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

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.

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 15 – Long-Term Obligations

The changes in the Service Center’s long-term obligations during fiscal year 2012 were as follows:

	<u>Outstanding June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2012</u>	<u>Due Within One Year</u>
Claims Payable	\$0	\$4,704,235	\$4,217,235	\$487,000	\$400,000
Capital Leases	1,736,147	0	1,679,789	56,358	26,150
Compensated Absences	2,095,694	2,099,286	1,666,917	2,528,063	1,400,954
Total	<u>\$3,831,841</u>	<u>\$6,803,521</u>	<u>\$7,563,941</u>	<u>\$3,071,421</u>	<u>\$1,827,104</u>

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.

Note 16 – Capital Leases

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

The assets acquired through the capital leases are as follows:

Assets:	
Copiers	\$108,420
Less: Accumulated Depreciation	<u>(43,368)</u>
Total Book Value as of June 30, 2012	<u><u>\$65,052</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, 2012.

	<u>Governmental Activities</u>
2013	\$29,159
2014	26,916
2015	<u>4,486</u>
Total Minimum Lease Payments	60,561
Less: Amounts Representing Interest	<u>(4,203)</u>
Present Value of Minimum Lease Payments	<u><u>\$56,358</u></u>

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 \$65,780 to NCC during the fiscal year 2012.

The Governing Board consists of superintendents of each participating school district and the Service Center. The degree of control exercised by any participant is limited to its representation of the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of NCC's financial statements, write to the Service Center at 5811 Canal Road, Valley View, Ohio 44125. Effective July 1, 2012, the Lake Erie Educational Computer Association merged with the Lakeshore Northeast Ohio Computer Association. The Service Center will continue acting as their fiscal agent.

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 2012.

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

Positive Education Program (PEP)

The PEP is a non-profit organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center did not make any contributions to the PEP in fiscal year 2012.

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.

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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	\$701,876
Local Grants	136,131
Title VI-B	78,909
Nonmajor funds	419,368
Total	<u><u>\$1,336,284</u></u>

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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2012, 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, 2012.

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$6,236,844	
Interest			62,490	
Tuition and Fees			36,770,956	
Rentals			533,750	
Charges for Services			12,003,791	
Extracurricular Activities			25	
Contributions and Donations			81,481	
Miscellaneous			797,099	
<i>Total Revenues</i>			56,486,436	
Expenditures				
Current:				
Instruction:				
Regular	748,149	748,149	732,709	15,440
Special	26,990,331	26,990,331	26,715,002	275,329
Vocational	563,174	563,174	550,402	12,772
Support Services:				
Pupil	5,428,549	5,428,549	5,333,345	95,204
Instructional Staff	9,809,757	9,809,757	9,666,198	143,559
Board of Education	96,462	96,462	94,514	1,948
Administration	10,500,711	10,500,711	10,336,305	164,406
Fiscal	953,490	953,490	937,744	15,746
Business	20,297	20,297	19,837	460
Operation and Maintenance of Plant	3,095,991	3,095,991	3,027,262	68,729
Pupil Transportation	5,242	5,242	5,123	119
Central	86,733	86,733	84,921	1,812
Operation of Non-Instructional Services	81,504	81,504	79,656	1,848
Extracurricular Activities	64,199	64,199	62,743	1,456
<i>Total Expenditures</i>	58,444,589	58,444,589	57,645,761	798,828
<i>Excess of Revenues Under Expenditures</i>	(58,444,589)	(58,444,589)	(1,159,325)	
Other Financing Sources (Uses)				
Advances In			4,839,570	
Advances Out			(3,375,000)	
<i>Total Other Financing Sources (Uses)</i>			1,464,570	
<i>Net Change in Fund Balance</i>			305,245	
<i>Fund Balance Beginning of Year</i>			19,211,259	
Prior Year Encumbrances Appropriated			895,483	
<i>Fund Balance End of Year</i>			\$20,411,987	

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$5,907,680	
Extracurricular Activities			700	
Contributions and Donations			11,300	
<i>Total Revenues</i>			<u>5,919,680</u>	
Expenditures				
Current:				
Support Services:				
Pupil	126,669	126,669	126,669	0
Instructional Staff	12,926	12,926	12,926	0
Administration	1,632,673	1,632,673	1,632,673	0
Fiscal	10,700	10,700	10,700	0
Operation of Non-Instructional Services	6,205,021	6,205,021	6,205,021	0
<i>Total Expenditures</i>	<u>7,987,989</u>	<u>7,987,989</u>	<u>7,987,989</u>	<u>0</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(7,987,989)</u>	<u>(7,987,989)</u>	<u>(2,068,309)</u>	
Other Financing Sources (Uses)				
Advances In			1,250,000	
Advances Out			(2,257,570)	
<i>Total Other Financing Sources (Uses)</i>			<u>(1,007,570)</u>	
<i>Net Change in Fund Balance</i>			(3,075,879)	
<i>Fund Balance Beginning of Year</i>			(646,502)	
Prior Year Encumbrances Appropriated			1,519,846	
<i>Fund Deficit End of Year</i>			<u><u>(\$2,202,535)</u></u>	

See accompanying notes to the supplemental information

Supplemental Information

Educational Service Center of Cuyahoga County
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Title VI-B Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$3,299,931	
Expenditures				
Current:				
Instruction:				
Special	483,112	483,112	459,958	23,154
Support Services:				
Pupil	139,533	139,533	132,844	6,689
Instructional Staff	1,476,189	1,476,189	1,408,158	68,031
Administration	519,827	519,827	495,076	24,751
Fiscal	229,260	229,260	218,270	10,990
Operation and Maintenance of Plant	82,368	82,368	78,420	3,948
Operation of Non-Instructional Services	501,997	501,997	478,814	23,183
<i>Total Expenditures</i>	<u>3,432,286</u>	<u>3,432,286</u>	<u>3,271,540</u>	<u>160,746</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,432,286)</u>	<u>(3,432,286)</u>	<u>28,391</u>	
Other Financing Sources (Uses)				
Advances In			329,000	
Advances Out			<u>(775,000)</u>	
<i>Total Other Financing Sources (Uses)</i>			<u>(446,000)</u>	
<i>Net Change in Fund Balance</i>			(417,609)	
<i>Fund Balance Beginning of Year</i>			452,828	
Prior Year Encumbrances Appropriated			<u>235,337</u>	
<i>Fund Balance End of Year</i>			<u><u>\$270,556</u></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, 2012*

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, 2012*

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

	Net Change in Fund Balance		
	<u>General</u>	<u>Local Grants</u>	<u>Title VI-B</u>
GAAP Basis	(\$1,173,148)	(\$2,089,740)	\$166,431
Net Adjustment for Revenue Accruals	1,259,787	481,808	0
Beginning Fair Value Adjustment for Investments	2,630	0	0
Ending Fair Value Adjustment for Investments	(220)	0	0
Beginning Unrecorded Cash	587,028	0	30,577
Ending Unrecorded Cash	(620,993)	0	(29,168)
Advance In	4,839,570	1,250,000	329,000
Net Adjustment for Expenditure Accruals	(512,533)	(324,246)	(60,540)
Advance Out	(3,375,000)	(2,257,570)	(775,000)
Adjustment for Encumbrances	<u>(701,876)</u>	<u>(136,131)</u>	<u>(78,909)</u>
Budget Basis	<u>\$305,245</u>	<u>(\$3,075,879)</u>	<u>(\$417,609)</u>

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

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Grant Year	CFDA Number	Receipts	Disbursements
<u>U.S. Department of Agriculture:</u>				
<i>Passed-Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Federal School Breakfast	2012	10.553	\$131,041	\$131,041
National School Lunch Program	2012	10.555	209,982	209,982
Total Child Nutrition Cluster			341,023	341,023
Total U.S. Department of Agriculture			341,023	341,023
<u>U.S. Department of Education:</u>				
<i>Direct Program:</i>				
Funds for the Improvement of Education: Teaching American History	2011	84.215X	272,471	270,813
<i>Passed-Through Ohio Department of Education:</i>				
Title I Cluster:				
Title I-Grants to Local Educational Agencies	2011	84.010	14,757	13,500
Title I-Grants to Local Educational Agencies	2012	84.010	80,227	77,887
ARRA – Title I-Grants to Local Educational Agencies	2011	84.389	53,835	40,002
Total Title I Cluster			148,819	131,389
Special Education Cluster:				
Special Education - Grants to States (IDEA, Part B)	2011	84.027	548,853	473,671
Special Education - Grants to States (IDEA, Part B)	2012	84.027	2,724,081	2,703,712
ARRA - Special Education - Grants to States (IDEA, Part B)	2011	84.391	26,995	15,247
Subtotal Special Education - Grants to States (IDEA, Part B)			3,299,929	3,192,630
Special Education - Preschool Grants (IDEA Preschool)	2011	84.173	4,358	-
Special Education - Preschool Grants (IDEA Preschool)	2012	84.173	31,872	40,014
Subtotal Special Education - Preschool Grants (IDEA Preschool)			36,230	40,014
Total Special Education Cluster (IDEA)			3,336,159	3,232,644
Special Education-State Personnel Development	2011	84.323	23,255	17,055
Special Education-State Personnel Development	2012	84.323	158,671	181,781
Total Special Education-State Personnel Development			181,926	198,836
Improving Teacher Quality State Grants, Title II-A	2011	84.367	40,500	81,330
Improving Teacher Quality State Grants, Title II-A	2012	84.367	67,794	100,775
Total Improving Teacher Quality State Grants, Title II-A			108,294	182,105
English Language Acquisition Grant	2011	84.365	2,892	633
English Language Acquisition Grant	2012	84.365	145,353	145,353
Total English Language Acquisition Grant			148,245	145,986
ARRA - Race To The Top	2012	84.395	390,937	402,502
Total U. S. Department of Education			4,586,851	4,564,275
<u>U.S. Department of Health and Human Services:</u>				
<i>Passed Through Ohio Department of Education:</i>				
Refugee and Entrant Assistance Grant	2011	93.576	219,765	219,765
Refugee and Entrant Assistance Grant	2012	93.576	53,513	30,585
Total Refugee Impact and Entrant Assistance			273,278	250,350
Total U.S. Department of Health and Human Services			273,278	250,350
Total Expenditures of Federal Awards			\$5,201,152	\$5,155,648

The accompanying notes are an integral part of this Schedule.

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

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SUBRECIPIENTS

The Service Center passes certain federal awards received from the U.S. Department of Education 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 ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Cuyahoga County, Cuyahoga County, (the Service Center) as of and for the year ended June 30, 2012, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated March 7, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the Service Center's management in a separate letter dated March 7, 2013.

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

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

Dave Yost
Auditor of State

March 7, 2013



Dave Yost • Auditor of State

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

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

To the Governing Board:

Compliance

We have audited the compliance of Educational Service Center of Cuyahoga County (the Service Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Service Center's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the Service Center's major federal programs. The Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Service Center's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with these requirements.

As described in findings 2012-001 through 2012-002 in the accompanying schedule of findings and questioned costs, the Service Center did not comply with requirements regarding Subrecipient Monitoring applicable to its Child Nutrition Cluster major federal program and did not comply with allowable costs/cost principles related to its Special Education Cluster major federal program. Compliance with these requirements is necessary, in our opinion, for the Service Center to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-001 and 2012-002 to be material weaknesses.

The Service Center's responses to the findings we identified 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.

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



Dave Yost
Auditor of State

March 7, 2013

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified – Child Nutrition Cluster and Special Education Cluster Unqualified – Race to the Top
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Special Education Cluster, CFDA #'s 84.027, 84.173, 84.391, and 84.392 Child Nutrition Cluster, CFDA #'s 10.553 and 10.555 Race to the Top, CFDA # 84.395
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Food Service

Finding Number	2012-001
CFDA Title and Number	Child Nutrition Cluster (CFDA # 10.553 and 10.555)
Federal Award Number / Year	2012
Federal Agency	US Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Food Service Subrecipient Monitoring – Material Noncompliance and Material Weakness

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

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

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

Officials Response:

The Service Center reviews copies of the monthly food service reports and prior year audited financial report.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012
(Continued)**

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

Finding Number	2012-002
CFDA Title and Number	Special Education Title 6B and Special Education Title 6B ARRA Grants to Local Education Agencies. (CFDA #84.027, 84.173, 84.391 and 84.392)
Federal Award Number / Year	2012
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

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

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

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

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

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

The Service Center did not obtain sufficient time and effort documentation for employees who were partially paid from Special Education grant funds during fiscal year 2012. The amount of monies charged to the Special Education Cluster for salaries in which there was no time and effort documentation provided totaled \$38,141. As a result, the costs for these salaries as charged to the Special Education Cluster grants are considered to be questioned costs.

EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

(Continued)

Finding Number 2012-002 (Continued)

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

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:

Any individuals assigned to be paid from any federal grant now prepare monthly time and effort logs to be kept by the Treasurer's department.

EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
 CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .315 (b)
 JUNE 30, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Financial Reporting	Yes	
2011-002	Food Service Subrecipient Monitoring	No	Not Corrected, reissued as Finding Number 2012-001
2011-003	Allowable Costs/Cost Principles – Time and Effort Documentation	No	Not Corrected, reissued as Finding Number 2012-002

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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
MARCH 21, 2013