

Educational Service Center of Lorain County

Lorain County, Ohio

Single Audit

July 1, 2005 Through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

**BALESTRA, HARR & SCHERER, CPAs, Inc.**

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Mary Taylor, CPA  
Auditor of State

Board of Education  
Educational Service Center of Lorain County  
1885 Lake Avenue  
Elyria, Ohio 44035

We have reviewed the *Independent Auditor's Report* of the Educational Service Center of Lorain County, Lorain County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Educational Service Center of Lorain County is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

June 11, 2007

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Lorain County, Ohio  
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Ohio Society of Certified Public Accountants

**Independent Auditor's Report**

Members of the Board  
Educational Service Center of Lorain County  
1885 Lake Avenue  
Elyria, Ohio 44035

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lorain County, Lorain County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2006, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that 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, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

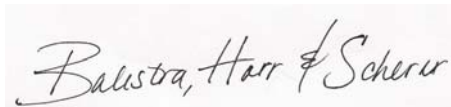
In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2007 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Educational Service Center of Lorain County  
Independent Auditor's Report  
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Educational Service Center's basic financial statements. The accompanying schedule of federal awards receipts and expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 17, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

February 28, 2007

***Educational Service Center of Lorain County***  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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The discussion and analysis of the Educational Service Center of Lorain County's (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

**Financial Highlights**

Key Financial Highlights for 2006 are as follows:

- In total, net assets increased by \$41,641.
- Revenues for governmental activities totaled \$7,911,464 in 2006. Of this total, 25 percent consisted of general revenues while program revenues accounted for the balance of 75 percent.
- Program expenses totaled \$7,869,823. Instructional expenses made up 22 percent of this total while support services accounted for 77 percent. Other expenses rounded out the remaining 1 percent.

**Using this Annual Financial Report**

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

The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the whole Educational Service Center, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of the Educational Service Center of Lorain County, the general fund by far is the most significant fund.



**Educational Service Center of Lorain County**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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**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 Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2006?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

Effective with this fiscal year, the *Statement of Net Assets* and the *Statement of Activities* are represented by one type of activity; Governmental Activities. The Educational Service Center's programs and services are reported here including instruction, support services, operation and maintenance of plant, and operation of non-instructional services.

**Reporting the Educational Service Center's Most Significant Funds**

*Fund Financial Statements*

The analysis of the Educational Service Center's major fund begins on page 22. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the general fund.

*Governmental Funds*

Most of the Educational Service Center's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are 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 Educational 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 Lorain County**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2006  
Unaudited

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**The Educational Service Center as a Whole**

You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2006 compared to 2005:

**Table 1**  
**Net Assets**

	<i>Governmental Activities</i>	
	2006	2005
<b>Assets</b>		
Current and Other Assets	\$ 4,864,047	\$ 4,766,965
Capital Assets, Net	399,686	453,716
<i>Total Assets</i>	5,263,733	5,220,681
<b>Liabilities</b>		
Current and Other Liabilities	811,154	866,779
Long-Term Liabilities		
Due Within One Year	155,502	135,950
Due in More than One Year	213,030	175,546
<i>Total Liabilities</i>	1,179,686	1,178,275
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	386,988	437,714
Restricted for Other Purposes	247,861	283,275
Unrestricted	3,449,198	3,321,417
<i>Total Net Assets</i>	\$4,084,047	\$4,042,406

Total assets increased by \$43,052. Cash and cash equivalents increased by \$595,025. Liabilities increased by \$1,411.

By comparing assets and liabilities, one can see that in the Educational Service Center's unrestricted net assets is \$3,449,198 and the entity is financially stable.

**Educational Service Center of Lorain County**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2006  
Unaudited

Table 2 compares the changes in net assets from fiscal year 2006 to fiscal year 2005. A comparative analysis of government-wide data follows.

**Table 2**  
**Changes in Net Assets**

	<i>Governmental Activities 2006</i>	<i>Governmental Activities 2005</i>
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$4,556,496	\$5,026,516
Operating Grants and Contributions	1,402,748	782,797
<i>Total Program Revenues</i>	<u>5,959,244</u>	<u>5,809,313</u>
General Revenues:		
Grants and Entitlements	1,756,181	1,747,060
Investments	187,530	76,895
Miscellaneous	8,509	1,116
<i>Total General Revenues</i>	<u>1,952,220</u>	<u>1,825,071</u>
<i>Total Revenues</i>	<u>7,911,464</u>	<u>7,634,384</u>
<b>Program Expenses</b>		
Instruction:		
Regular	724,122	729,728
Special	1,023,762	926,476
Other	0	541
Support Services:		
Pupil	850,249	940,400
Instructional Staff	3,901,613	3,946,668
Board of Education	32,130	45,170
Administration	456,686	509,814
Fiscal	336,315	361,890
Business	420,312	461,816
Operation and Maintenance of Plant	56,906	81,748
Central	57,141	2,110
Operation of Non-Instructional Services	409	528
Extracurricular Activities	9,412	11,467
Interest and Fiscal Charges	766	525
<i>Total Program Expenses</i>	<u>7,869,823</u>	<u>8,018,881</u>
Changes in Net Assets	41,641	(384,497)
<i>Net Assets Beginning of Year</i>	<u>4,042,406</u>	<u>4,426,903</u>
<i>Net Assets End of Year</i>	<u>\$4,084,047</u>	<u>\$4,042,406</u>

*Educational Service Center of Lorain County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited*

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**Governmental Activities**

A review of Table 2 reinforces the concept of sound fiscal management in the government sector generating an increase in excess of revenues over expenditures. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same. Prior year comparison is not available due to the initial year implementation of this accounting presentation.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The \$1,910,579, Net Cost of Services 2006, tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

**Table 3  
Governmental Activities**

	<i>Total Cost of Services 2006</i>	<i>Net Cost of Services 2006</i>
Instruction:		
Regular	\$ 724,122	\$ 43,253
Special	1,023,762	16,439
Support Services:		
Pupil	850,249	15,829
Instructional Staff	3,901,613	620,740
Board of Education	32,130	32,130
Administration	456,686	333,860
Fiscal	336,315	318,883
Business	420,312	420,312
Operation and Maintenance of Plant	56,906	52,795
Central	57,141	55,163
Operation of Non-Instructional Services	409	409
Extracurricular Activities	9,412	-
Interest and Fiscal Charges	766	766
	<b>\$ 7,869,823</b>	<b>\$ 1,910,579</b>
<i>Total</i>		

**The Educational Service Center's Funds**

Information regarding the Educational Service Center's major funds can be found on page 22&23 of the notes to the basic financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$8,143,285 and expenditures totaled \$7,769,750. The General Fund balance increased \$450,578 primarily due to increased collections from customer sales and services revenue and increased investment earnings due to increasing interest rates.

***Educational Service Center of Lorain County***  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2006, the Educational Service Center had \$478,483 invested in land, building and improvements, vehicles and furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal year 2006 values compared to 2005.

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

	<i>Governmental Activities</i>	
	<i>2006</i>	<i>2005</i>
Land	\$50,000	\$50,000
Buildings and Improvements	493,349	487,727
Vehicles	22,229	22,229
Furniture and Fixtures	383,242	373,459
Accumulated Depreciation	(549,134)	(479,699)
<i>Totals</i>	<i>\$399,686</i>	<i>\$453,716</i>

All capital assets are reported at historical cost. For more information on capital assets refer to Note 10 of the basic financial statements.

**Current Financial Related Activities**

The Educational Service Center of Lorain County is financially sound. The Board and administration closely monitors its revenue and expenditures in accordance with board policy. The Educational Service Center is committed to serving its local school districts and will continue to do so. While many outside factors can affect the economy, the Educational Service Center is committed to providing the best services possible and to be fiscally responsible now and in the future.

**Contacting the Educational Service Center District's Financial Management**

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service center's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Mr. Tom Tomlin, Treasurer, at the Educational Service Center of Lorain County, 1885 Lake Ave., Lorain, Ohio 44035 or calling 440-327-0720.

**Educational Service Center of Lorain County**  
*Statement of Net Assets*  
*June 30, 2006*

	<b><i>Governmental Activities</i></b>
<b><i>Assets</i></b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 3,790,105
Cash and Cash Equivalents with Fiscal Agent	319,433
Accrued Interest Receivable	24,754
Due From Others	83,100
Intergovernmental Receivable	646,655
Noncurrent Assets:	
Non-Depreciable Capital Assets	50,000
Depreciable Capital Assets, net	349,686
<b><i>Total Assets</i></b>	<b>5,263,733</b>
 <b><i>Liabilities</i></b>	
Current Liabilities:	
Accounts Payable	24,193
Accrued Wages and Benefits	511,359
Intergovernmental Payable	96,262
Claims Payable	179,340
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	158,807
Due in More Than One Year	209,725
<b><i>Total Liabilities</i></b>	<b>1,179,686</b>
 <b><i>Net Assets</i></b>	
Invested in Capital Assets, Net of Related Debt	386,988
Restricted for Other Purposes	247,861
Unrestricted	3,449,198
<b><i>Total Net Assets</i></b>	<b>\$ 4,084,047</b>

See Accompanying Notes to the Basic Financial Statements

**Educational Service Center of Lorain County**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)/ Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 724,122	\$ 607,085	\$ 73,784	\$ (43,253)
Special	1,023,762	762,621	244,702	(16,439)
Support Services:				
Pupils	850,249	771,130	63,290	(15,829)
Instructional Staff	3,901,613	2,415,660	865,213	(620,740)
Board of Education	32,130	-	-	(32,130)
Administration	456,686	-	122,826	(333,860)
Fiscal	336,315	-	17,432	(318,883)
Business	420,312	-	-	(420,312)
Operation and Maintenance of Plant	56,906	-	4,111	(52,795)
Central	57,141	-	1,978	(55,163)
Operation of Non-Instructional Services	409	-	-	(409)
Extracurricular Activities	9,412	-	9,412	-
Interest and Fiscal Charges	766	-	-	(766)
	<u>7,869,823</u>	<u>4,556,496</u>	<u>1,402,748</u>	<u>(1,910,579)</u>
<b>General Revenues</b>				
Grants and Entitlements not Restricted to Specific Program				1,756,181
Investment Earnings				187,530
Miscellaneous				<u>8,509</u>
<b>Total General Revenues</b>				<u>1,952,220</u>
<b>Change in Net Assets</b>				41,641
<b>Net Assets Beginning of Year</b>				<u>4,042,406</u>
<b>Net Assets End of Year</b>				<u>\$ 4,084,047</u>

See Accompanying Notes to the Basic Financial Statements

**Educational Service Center of Lorain County**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2006*

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>Assets</b>			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 3,546,545	\$ 243,560	\$ 3,790,105
Accrued Interest Receivable	24,754	-	24,754
Interfund Receivable	24,650	-	24,650
Due to Others	83,100	-	83,100
Intergovernmental Receivable	582,443	64,212	646,655
<i>Total Assets</i>	<i>4,261,492</i>	<i>307,772</i>	<i>4,569,264</i>
<b>Liabilities</b>			
Current Liabilities:			
Accounts Payable	15,612	8,581	24,193
Accrued Wages and Benefits	493,919	17,440	511,359
Interfund Payable	-	24,650	24,650
Intergovernmental Payable	92,533	3,729	96,262
Deferred Revenue	205,655	43,465	249,120
<i>Total Liabilities</i>	<i>807,719</i>	<i>97,865</i>	<i>905,584</i>
Equity:			
<b>Fund Balances</b>			
Reserved:			
Reserved for Encumbrances	244,754	22,588	267,342
Unreserved, Undesignated, Reported in:			
General Fund	3,209,019	-	3,209,019
Special Revenue Funds	-	187,319	187,319
<i>Total Fund Balances</i>	<i>3,453,773</i>	<i>209,907</i>	<i>3,663,680</i>
<i>Total Liabilities and Fund Balances</i>	<i>\$ 4,261,492</i>	<i>\$ 307,772</i>	<i>\$ 4,569,264</i>

See Accompanying Notes to the Basic Financial Statements



**Educational Service Center of Lorain County**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2006*

***Total Governmental Fund Balances*** \$3,663,680

*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. 399,686

Other long-term assets are not available to pay for current-  
 period expenditures and therefore are deferred in the funds. 249,120

An internal service fund is used by management to charge the  
 costs of insurance to individual funds. The assets and liabilities  
 costs of insurance to individual funds. The assets and liabilities  
 of the internal service fund are included in governmental  
 activities in the statement of net assets. 140,093

Long-term liabilities, including capital leases payable, are not due and payable  
 in the current period and therefore are not reported in the funds:

Compensated Absences	(355,834)	
Capital Leases Payable	(12,698)	
	(368,532)	(368,532)

***Net Assets of Governmental Activities*** \$4,084,047

See Accompanying Notes to the Basic Financial Statements

**Educational Service Center of Lorain County**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
**Governmental Funds**  
*For the Fiscal Year Ended June 30, 2006*

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>Revenues</b>			
Intergovernmental	\$ 2,795,727	\$ 665,308	\$ 3,461,035
Interest	187,530	-	187,530
Tuition and Fees	2,592,005	1,904	2,593,909
Gifts and Donations	-	18,985	18,985
Customer Sales and Services	1,828,622	22,307	1,850,929
Miscellaneous	8,510	-	8,510
	<b>7,412,394</b>	<b>708,504</b>	<b>8,120,898</b>
<b>Total Revenues</b>			
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	629,773	68,325	698,098
Special	743,273	261,704	1,004,977
Support Services:			
Pupils	755,409	67,340	822,749
Instructional Staff	3,633,301	205,605	3,838,906
Board of Education	32,130	-	32,130
Administration	322,585	130,456	453,041
Fiscal	327,617	18,012	345,629
Business	464,370	-	464,370
Operation and Maintenance of Plant	57,494	391	57,885
Central	8,000	2,065	10,065
Operation of Non-Instructional Services	409	-	409
Extracurricular Activities	-	9,412	9,412
Capital Outlay	5,622	-	5,622
Debt Service:			
Principal	3,304	-	3,304
Interest and Fiscal Charges	766	-	766
	<b>6,984,053</b>	<b>763,310</b>	<b>7,747,363</b>
<b>Total Expenditures</b>			
<i>Excess of Revenues Over (Under) Expenditures</i>	<b>428,341</b>	<b>(54,806)</b>	<b>373,535</b>
<b>Other Financing Sources (Uses)</b>			
Transfers In	22,312	75	22,387
Transfers Out	(75)	(22,312)	(22,387)
	<b>22,237</b>	<b>(22,237)</b>	<b>-</b>
<b>Total Other Financing Sources (Uses)</b>			
<i>Net Change in Fund Balances</i>	<b>450,578</b>	<b>(77,043)</b>	<b>373,535</b>
<i>Fund Balances Beginning of Year</i>	<b>3,003,195</b>	<b>286,951</b>	<b>3,290,146</b>
<i>Fund Balances End of Year</i>	<b>\$ 3,453,773</b>	<b>\$ 209,908</b>	<b>\$ 3,663,681</b>

See Accompanying Notes to the Basic Financial Statements

**Educational Service Center of Lorain 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, 2006*

*Net Change in Fund Balances - Total Governmental Funds* \$373,535

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

Governmental funds report capital outlay as expenditures.  
However, in the statement of activities, the cost of those  
assets is allocated over their estimated useful lives as  
depreciation expense. In the current period, these amounts are:

Capital Assets - Additions	23,815	
Depreciation	(77,845)	
	(54,030)	
<i>Total</i>		(54,030)

Revenues in the statement of activities that do not provide current  
financial resources are not reported as revenues in the funds. (209,433)

Some expenses reported in the statement of activities, such as pension obligations,  
capital leases and compensated absences, do not require the use of current financial  
resources and therefore are not reported as expenditures in the governmental funds.  
in governmental funds.

Pension Contributions	27,177	
Capital Leases	3,304	
Compensated Absences	(60,340)	
	(29,859)	
<i>Total</i>		(29,859)

The internal service fund used by management to charge the costs of  
health insurance is included in the statement of activities and not on the  
governmental fund expenditures. This is the amount that revenues exceeded  
expenses during the year. (38,572)

*Changes in Net Assets of Governmental Activities* \$41,641

See Accompanying Notes to the Basic Financial Statements

**Educational Service Center of Lorain County**  
*Statement of Fund Net Assets*  
*Proprietary Fund Type*  
*June 30, 2006*

	<i>Internal Service Fund</i>
<b>Assets</b>	
Cash and Cash Equivalents with Fiscal Agent	\$ 319,433
<i>Total Assets</i>	319,433
<b>Liabilities</b>	
Claims Payable	179,340
<i>Total Liabilities</i>	179,340
<b>Net Assets</b>	
Unrestricted	140,093
<i>Total Net Assets</i>	\$ 140,093

See Accompanying Notes to the Basic Financial Statements

**Educational Service Center of Lorain County**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Proprietary Fund Type*  
*For the Fiscal Year Ended June 30, 2006*

	<i><b>Internal Service Fund</b></i>
<i><b>Operating Revenues</b></i>	
Charges for Services	\$ 983,315
<i>Total Operating Revenues</i>	983,315
<i><b>Operating Expenses</b></i>	
Purchased Services	66,410
Claims	966,140
<i>Total Operating Expenses</i>	1,032,550
<i>Operating Loss</i>	(49,235)
<i><b>Non-Operating Revenues</b></i>	
Interest	10,663
<i>Total Non-Operating Revenues</i>	10,663
<i>Net Loss</i>	(38,572)
<i>Net Assets at Beginning of Year</i>	178,665
Net Assets at End of Year	\$ 140,093

See Accompanying Notes to the Basic Financial Statements

**Educational Service Center of Lorain County**  
*Statement of Cash Flows*  
*Proprietary Fund Type*  
For the Fiscal Year Ended June 30, 2006

	<b><i>Internal Service Fund</i></b>
<b><i>DECREASE IN CASH AND CASH EQUIVALENTS</i></b>	
<b><i>Cash Flows from Operating Activities</i></b>	
Cash Received from Customers	\$ 983,315
Cash Payments to Suppliers for Goods and Services	(66,410)
Cash Payments for Claims	(975,296)
<i>Net Cash Used for Operating Activities</i>	(58,391)
<b><i>Cash Flows from Investing Activities</i></b>	
Interest on Investments	10,663
<i>Net Cash Provided by Investing Activities</i>	10,663
<i>Net Decrease in Cash and Cash Equivalents</i>	(47,728)
<i>Cash and Cash Equivalents at Beginning of Year</i>	367,161
<i>Cash and Cash Equivalents at End of Year</i>	\$ 319,433
<b><i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</i></b>	
<i>Operating Loss</i>	\$ (49,235)
<i>Adjustments:</i>	
<i>Changes in Liabilities:</i>	
Decrease in Claims Payable	(9,156)
<i>Total Adjustments</i>	(9,156)
<i>Net Cash Used for Operating Activities</i>	\$ (58,391)

See Accompanying Notes to the Basic Financial Statements

**Educational Service Center of Lorain County**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2006*

	<i>Investment Trust</i>	<i>Agency</i>
<b><i>Assets</i></b>		
Equity in Pooled Cash and Cash Equivalents	\$ 2,358,658	\$ 192,038
Cash and Cash Equivalents in Segregated Accounts	-	10,321,165
Accrued Interest Receivable	6,747	69,602
Intergovernmental Receivable	33,526	263,362
	<u>2,398,931</u>	<u>10,846,167</u>
<b><i>Total Assets</i></b>	<u>2,398,931</u>	<u>10,846,167</u>
<b><i>Liabilities</i></b>		
Accounts Payable	610,739	37,867
Accrued Wages and Benefits	41,002	21,729
Intergovernmental Payable	19,627	4,718
Due to Others	-	83,100
Undistributed Monies	-	10,698,753
	<u>671,368</u>	<u>10,698,753</u>
<b><i>Total Liabilities</i></b>	<u>671,368</u>	<u>10,698,753</u>
<b><i>Net Assets</i></b>		
Held in Trust for Pool Participants	1,727,563	
<b><i>Total Net Assets</i></b>	<u>\$ 1,727,563</u>	

See Accompanying Notes to the Basic Financial Statements

**Educational Service Center of Lorain County**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Funds*  
*For the Fiscal Year June 30, 2006*

	<b><i>Investment Trust</i></b>
<b><i>Additions</i></b>	
Interest	\$ 23,727
Capital Transactions	3,910,322
<i>Total Additions</i>	3,934,049
<b><i>Deductions</i></b>	
Distributions to Participants	(4,110,326)
<i>Change in Net Assets</i>	(176,277)
<i>Net Assets Beginning of Year -</i> <i>(As Restated, See Note 17)</i>	1,903,840
<i>Net Assets End of Year</i>	\$ 1,727,563

See Accompanying Notes to the Basic Financial Statements



## **Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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### **Note 1 - Description of the Educational Service Center**

On June 13, 1914, the Educational Service Center of Lorain County (the Educational Service Center) was formed. The Educational Service Center supplies supervisory, administrative, fiscal, and other needed services to school districts and other agencies in the greater Lorain County area.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's facility and staff who provide services to 29,170 students in local, city and exempted village school districts in Lorain County.

#### *Reporting Entity*

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

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

The Educational Service Center is associated with certain organizations which are defined as a jointly governed organization and public entity risk pools. These organizations are presented in Notes 8 and 9 to the basic financial statements. These organizations are the Lake Erie Educational Computer Association (LEECA), Sheakley Workers Compensation Group Rating Program (WCGRP), the Lake Erie Regional Council of Governments (LERC) and the Special Education Regional Resource Center (SERRC).

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

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Educational Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB -\*pronouncements. Explanation of the Educational Service Center's more significant policies follow.

#### **A. Basis of Presentation**

The Educational 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.

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

**B. Fund Accounting**

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Educational Service Center are grouped into the categories governmental and fiduciary.

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

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

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

**Proprietary Fund Types** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service; the Educational Service Center has no enterprise funds.

**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 Educational Service Center on a cost reimbursement basis. The Educational Service Center's only internal service fund accounts for the operation of the Educational Service Center's self-insurance program for employee medical benefits.

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**B. Fund Accounting** (continued)

***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 Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has an investment trust fund which is used to account for the activity of the external investment pool for the Lake Erie Educational Computer Association. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

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

The investment trust fund is reported using the economic resources measurement focus.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and 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. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

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

***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.

***Expenditures/Expenses*** 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.

**E. Budgetary Data**

Although not legally required, the Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are appointed by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the Educational Service Center's requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Educational Service Center was discretionary, the Educational Service Center continued to have its Board approve appropriations and estimated resources. The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control had 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 levels without resolution by the Board.

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**F. Cash and Cash Equivalents**

To improve cash management, all cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2006, investments were limited to certificates of deposit, STAR Ohio, the State Treasurer's Investment Pool, repurchase agreements, treasury notes, commercial paper and federal agency securities. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center has invested funds in the State Treasury Asset Reserve of Ohio ("STAR Ohio") during fiscal year 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2006, the general fund, self insurance internal service fund, and LEECA investment trust fund received interest respectively; \$187,530, \$10,663, and \$23,727.

The Educational Service Center is fiscal agent for LERC. The Educational Service Center has segregated LERC's funds into separate bank accounts for individual investment accounts held separate from the Educational Service Center's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the Educational Service Center's treasury.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center's capitalization threshold is \$2,400. The Educational 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 capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. 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:

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**H. Capital Assets** (continued)

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	5 years
Buildings and Buildings Improvements	5 - 30 years
Furniture and Fixtures	5 - 10 years

**I. 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 in the governmental activities column of the statement of net assets.

**J. 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 Educational Service Center will compensate the employees for the benefits through paid time off or some other means

Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due

**L. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditure/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**M. 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 borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes represents balances in special revenue funds for grants received which are restricted as to their use by grantors.

The Educational Service Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the Center's restricted net assets of \$247,861, none are restricted by enabling legislation.

**N. Fund Balance Reserves**

The Educational Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

**O. 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.

**P. 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 Educational Service Center and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

**Note 3 - Deposits and Investments**

State statutes classify monies held by the Educational Service Center into three categories:

Category 1 consists of "active" moneys, those moneys are required to be kept in a cash" or "near-cash" status for immediate use by the Educational Service Center. Such moneys must be maintained either as cash in the Educational Service Center treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Category 2 consists of "inactive" moneys, those moneys not required for use within the current five year period of designation of depositories. Inactive moneys must be deposited or invested as certificates of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Category 3 consists of "interim" moneys, those moneys 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).

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 3 - Deposits and Investments** (continued)

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

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or other obligations 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 obligations or securities 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, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily; and that the term of the agreement does not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio; (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

*Deposits:*

Custodial credit risk is the risk that, in the event of bank failure, the Educational Service Center's deposits may not be returned. The Educational Service Center does not have a deposit policy for custodial credit risk. At fiscal year end the bank balance was \$4,822,597. Of the bank balance, \$4,649,986 was covered by federal depository insurance and \$172,611 was collateralized with securities held by the pledging institution's trust department not in the Educational Service Center's name.



**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

**Note 3 - Deposits and Investments** (continued)

*Investments:*

As of June 30, 2006, the Educational Service Center had the following investments and maturities:

<i>Investment Type</i>	<i>Fair Value</i>	<i>1 Year</i>				
		<i>Or Less</i>	<i>2 Year</i>	<i>3 Years</i>	<i>4 Years</i>	<i>5 Years</i>
STAROhio	\$556,314	\$556,314	\$0	\$0	\$0	\$0
FHLB	2,086,738	696,406	199,376	297,189	546,422	347,345
FHLMC	199,096	199,096	0	0	0	0
FNMA	2,081,829	1,564,204	517,625	0	0	0
FHLMC Discount Note	962,598	962,598	0	0	0	0
FNMA Discount Note	909,280	410,138	499,150	0	0	0
<i>Totals</i>	<u>\$6,795,855</u>	<u>\$4,388,748</u>	<u>\$1,216,151</u>	<u>\$297,189</u>	<u>\$546,422</u>	<u>\$347,345</u>

The weighted average maturity of the investment is 2.52 years

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Educational Service Center's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Educational Service Center's investments, except for STAR Ohio and money market funds, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and the money market funds a rating of AAAM.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Educational Service Center's places no limit on the amount that may be invested to any one issuer. The following table includes the percentage of total of each investment type held by the Educational Service Center at June 30, 2006:

<i>Investment Type</i>	<i>Fair Value</i>	<i>Percent Or Total</i>
STAROhio	\$556,314	8.19%
FHLB	2,086,738	30.71
FHLMC	199,096	2.93
FNMA	2,081,829	30.63
FHLMC Discount Note	962,598	14.16
FNMA Discount Note	909,280	13.38
<i>Totals</i>	<u>\$6,795,855</u>	<u>100.00%</u>

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 4 - Receivables**

Receivables at June 30, 2006, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds and all receivables will be collected within one year. A summary of the principal items of intergovernmental receivables follows:

<i>Governmental Activities</i>	<i>Amounts</i>
Customer Services	\$124,863
Tuition & Fees	457,580
Public Preschool	14,412
Alternative School	3,915
Title III – LEP	10,020
Title I Fund	28,423
Handicapped Preschool Fund	7,443
<i>Total Intergovernmental Receivables</i>	<u><u>\$646,655</u></u>

**Note 5 - State Funding**

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$37.00 for each of the 29,170 students who are provided services. In addition to the \$37.00, the Educational Service Center receives \$6.50 per pupil from school districts served and a prorated supervisory cost to the Educational Service Center. These payments are received through the State's foundation program. The Educational Service Center also receives unit funding from the State Department of Education to partially fund its pre-school special education program and the gifted and talented program.

If additional funding is required, and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of \$43.50 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation program. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

**Note 6 - External Investment Pool**

By State statute, the Educational Service Center serves as fiscal agent for a legally separate entity. The Educational Service Center pools money of this entity with the Educational Service Center's for investment purposes. The Educational Service Center cannot allocate its investment between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The fair value and carrying amounts for both the internal and external investment pools are disclosed in Note 3, "Deposits and Investments". Condensed financial information for the investment pool follows:

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 6 - External Investment Pool** (continued)

*Statement of Net Assets  
June 30, 2006*

<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$6,340,801
Interest Receivable	31,501
<i>Total Assets</i>	<u><u>\$6,372,302</u></u>
 <b>Net Asset Held in Trust for Pool Participants</b>	
Internal Portion	\$4,006,897
External Portion	2,365,405
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u><u>\$6,372,302</u></u>

*Statement of Changes in Net Assets  
For Fiscal Year Ended June 30, 2006*

<b>Revenues</b>	
Interest	\$211,257
<b>Expenses</b>	
Operating Expenses	0
<i>Net Increase in Assets Resulting from Operations</i>	<u>211,257</u>
Distribution to Participants	(211,257)
Capital Transactions	1,092,227
<i>Total Increase in Net Assets</i>	<u>1,092,227</u>
<i>Net Assets Beginning of Year</i>	<u>5,280,075</u>
<i>Net Assets End of Year</i>	<u><u>\$6,372,302</u></u>

**Note 7 - Jointly Governed Organizations**

A. ***Lake Erie Educational Computer Association (LEECA)***

LEECA is a jointly governed computer service organization among thirty-one members in the Ohio counties of Cuyahoga, Lorain, Erie, Huron, and Medina. These members are comprised of various public school districts and educational service centers in the counties previously mentioned. 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. LEECA is organized under Chapter 167 and 3313 of the Ohio Revised Code. The Educational Service Center serves as fiscal agent for LEECA and is one of the members mentioned above. LEECA is governed by an assembly which consists of a superintendent or designated representative from each participating member. LEECA has a Board of Directors chosen from the general membership of the LEECA Assembly which consists of a representative from the fiscal agent, chairmen of various committees, and at least one member from each participating county. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting and designating management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained by writing the Treasurer of the Educational Service Center of Lorain County, 1885 Lake Ave., Elyria, Ohio 44035.

**Educational Service Center of Lorain County**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

**Note 7 - Jointly Governed Organizations** (continued)

**B. Special Education Regional Resources Center (SERRC)**

The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed operation was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The educational service center did not contribute to the SERRC during fiscal year 2005.

SERRC is governed by a governing board of fifteen school superintendents from three counties, one representative from the Health Department, one representative from Cleveland Catholic Schools and two parents of children with disabilities. The degree of control exercised by any participating school district is limited to its representation on the board. To obtain a copy of the SERRC's financial statements, write to the Educational Service Center at 1885 Lake Avenue, Elyria, Ohio 44035.

**Note 8 - Public Entity Risk Pools**

*Claims Servicing Pool*

The Educational Service Center participates in the Lake Erie Regional Council of Governments (LERC) claims servicing pool. LERC's claims servicing pool business and affairs are conducted by a Board of Directors. Each member pays a monthly premium based on their claims history. All participating members retain their risk and LERC acts as the claims servicing agent

**Note 9 - Capital Assets**

Capital asset activity during fiscal year 2006 is as follows:

	<i>Balance at</i>			<i>Balance at</i>
	<u>6/30/2005</u>	<i>Additions</i>	<i>Reductions</i>	<u>6/30/2006</u>
<i>Governmental Activities:</i>				
<i>Capital Assets, not depreciated:</i>				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
<i>Total Capital Assets, not depreciated</i>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
<i>Capital Assets, being depreciated:</i>				
Building & Improvements	487,727	5,622	-	493,349
Vehicles	22,229	-	-	22,229
Furniture, Fixtures & Equipment	<u>373,459</u>	<u>18,193</u>	<u>(8,410)</u>	<u>383,242</u>
<i>Total Capital Assets, being depreciated</i>	<u>883,415</u>	<u>23,815</u>	<u>(8,410)</u>	<u>898,820</u>
<i>Less Accumulated Depreciation:</i>				
Building & Improvements	(148,947)	(52,637)	-	(201,584)
Vehicles	(11,115)	(4,445)	-	(15,560)
Furniture, Fixtures & Equipment	<u>(319,637)</u>	<u>(20,646)</u>	<u>8,293</u>	<u>(331,990)</u>
<i>Total Accumulated Depreciation</i>	<u>(479,699)</u>	<u>(77,728)</u>	<u>8,293</u>	<u>(549,134)</u>
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	<u>403,716</u>	<u>(53,913)</u>	<u>(117)</u>	<u>349,686</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 453,716</u>	<u>\$ (53,913)</u>	<u>\$ (117)</u>	<u>\$ 399,686</u>

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

**Note 9 - Capital Assets** (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$19,062
Special	3,471
Support Services:	
Pupils	13,012
Instructional Staff	20,573
Administration	10,663
Fiscal	4,340
Business	<u>6,607</u>
<i>Total Depreciation Expense</i>	<u><u>\$77,728</u></u>

**Note 10 - Risk Management**

The Educational 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 2006, the Educational Service Center contracted with Indiana Insurance Company for general liability insurance. Leased vehicles are covered by Indiana Insurance Company and have a \$50 deductible for comprehensive and a \$250 deductible for collision. The vehicle liability insurance is on an occurrence basis with a \$1,000,000 combined single limit. Claims have never exceeded this coverage.

Professional liability is protected by the Indiana Insurance Company with a \$5,000,000 annual aggregate/\$5,000,000 single occurrence limit and a \$10,000 deductible.

For fiscal year 2006, the Educational Service Center participated in the Sheakley Workers' Compensation Group rating Program. The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. Sheakley Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

Health, vision and dental insurances are available to most employees through a self-insurance internal service fund. The claims liability of \$179,340 reported in the internal service fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years are as follows:

	<i>Balance at Beginning of Year</i>	<i>Current Year Claims</i>	<i>Claims Payments</i>	<i>Balance at End of Year</i>
2005	119,063	1,018,780	949,347	188,496
2006	188,496	966,140	975,296	179,340

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 11 - Defined Benefit Pension Plan**

**A. School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 10.58 percent was the portion used to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Educational Service Center's contributions to SERS for the years ended June 30, 2006, 2005, and 2004 were \$321,766, \$314,109, and \$297,008, respectively, equal to the required contributions for each year. 100 percent has been contributed for all three fiscal years.

**B. State Teachers Retirement System**

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues publicly available general purpose financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

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 times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 65 or termination of employment. 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 the employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 11 - Defined Benefit Pension Plan** (continued)

**B. State Teachers Retirement System** (continued)

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contributions to STRS for the years ended June 30, 2006, 2005, and 2004 were \$589,862, \$598,278, and \$616,970, respectively, equal to the required contributions for each year. 87 percent of the STRS contributions have been contributed for fiscal year 2006. 100 percent of the STRS contributions have been contributed for all fiscal years 2005 and 2004.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose social security. As of June 30, 2006, four of the governing board members have elected social security. The board's liability is 6.2 percent of the wages paid.

**Note 12 - Post Employment Benefits**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fee, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the Educational Service Center, this amount equaled \$42,133 during the 2006 fiscal year.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the fund was \$3.5 billion at June 30, 2006. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium for this fiscal year, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. The surcharge rate added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. For fiscal year 2006, the minimum pay was established at \$35,800. For the Educational Service Center the amount to fund health care benefits, including surcharge, equaled \$105,447 during the fiscal year. The target level for the health care reserves is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 13 - Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to 30 days of vacation per year, depending upon length of service. Accumulated unused vacation (to a maximum of 40 days) is paid to employees upon termination of employment. Not all employees earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 240 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 120 days, and one-third of accumulated sick leave beyond 120 days, to a maximum accumulation of 210 days. Maximum payment may not exceed 60 days.

**B. Life Insurance**

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Life Insurance Trust in an amount equal to one half times the employee's salary rounded to the nearest \$500.

**Note 14 - Long-Term Obligations**

Changes in long-term obligations during fiscal year 2006 are as follows:

	<i>Principal Outstanding June 30,2005</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding June 30,2006</i>	<i>Due Within One Year</i>
Compensated Absences	\$295,494	\$60,340	\$0	\$355,834	\$155,324
Capital Leases	16,002	0	3,304	12,698	3,483
<i>Total Long-Term Obligations</i>	<u>\$311,496</u>	<u>\$60,340</u>	<u>\$3,304</u>	<u>\$368,532</u>	<u>\$158,807</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital lease payments will be paid from the general fund.

**Note 15 - Capital Lease**

The Educational Service Center entered into a lease agreement for equipment during the fiscal year. The Educational Service Center's lease obligation meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases". Capital lease payments have been reclassified and are reflected as debt service expenses in the basic financial statements. These expenditures are reflected as capital outlay expenditures on a budgetary basis. Capital assets acquired by lease have been capitalized as furniture, fixtures and equipment in the amount of \$17,850. Accumulated depreciation as of June 30, 2006 for this asset was \$5,355, leaving a current book value of \$12,495.



**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

**Note 15 - Capital Lease** (continued)

The following is a schedule of future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2006:

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	4,070
2008	4,070
2009	4,070
2010	1,695
<i>Total Minimum Lease Payments</i>	13,905
<i>Less Amount Representing Interest</i>	(1,207)
<i>Net Present Value of Minimum Lease Payments</i>	<u>\$12,698</u>

**Note 16 - Operating Lease**

The Educational Service Center is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreement is not reflected in the Educational Service Center's general long-term debt account group. During 2006, expenditures for the operating lease totaled \$29,305. The following is a schedule of future minimum lease payments as of June 30, 2006:

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	28,225
2008	8,910
<i>Total Minimum Lease Payments</i>	<u>\$37,135</u>

**Note 17 – Change in Accounting Principles and Restatement of Fund Balance/Net Assets**

*Changes in Accounting Principles:* For the fiscal year 2006, the Center implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

*Restatements:* Restatements were made to correct errors in prior year expenses causing an increase in fund balance to Fiduciary Funds.

	<u>Fiduciary Funds</u>
Net Assets, June 30, 2005	\$ 1,871,463
Expenses Amount	<u>32,377</u>
Restated Net Assets June 30, 2005	<u>\$ 1,903,840</u>

**Educational Service Center of Lorain County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 18 - Contingencies**

**A. Grants**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2006.

**B. Litigation**

The Educational Service Center is not a part of or involved in any legal proceedings at this time. The Educational Service Center management is of the opinion that ultimate disposition of any future claims and legal proceedings will not have a material effect, if any, on the financial condition of the Educational Service Center.

**Note 19 - School Funding Issue**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**Note 20 – Interfund Transactions**

Interfund balances at June 30, 2006, consist of the following individual fund receivables and payables:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$24,650	\$0
<i>Non-Major Funds</i>		
Public Preschool	0	3,000
Miscellaneous State	0	11,250
Title III -LEP	0	4,100
Title I	0	3,600
Handicapped Preschool	0	2,700
<i>Total Non-Major Funds</i>	<u>0</u>	<u>24,650</u>
<b><i>Total – All Funds</i></b>	<u>\$24,650</u>	<u>\$24,650</u>

Lorain County Educational Service Center  
Lorain County

Schedule of Federal Awards Expenditures  
For the Year Ended June 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>United States Department of Education</b>						
<i>Passed through Ohio Department of Education</i>						
Special Education Cluster:						
Special Education Grants to States	6BSF	84.027	\$ 1,471,155	\$ -	\$ 1,117,365	\$ -
Special Education - Preschool Grants	PGS1	84.173	95,901	-	92,603	-
Total Special Education Cluster			1,567,056	-	1,209,968	-
Title I Grants to Local Education Agencies	CIS1	84.010	242,315	-	231,815	-
Education for Homeless Children and Youth	HCS1	84.196	57,811	-	61,973	-
Javits Gifted and Talented Education Grant Program	JGS1	84.206	7,777	-	744	-
Special Education - State Personnel Development	STS1	84.323	54,676	-	91,555	-
English Language Acquisition Grants	T3S1	84.365	16,109	-	13,613	-
<b>Total United States Department of Education</b>			1,945,744	-	1,609,668	-
<b>Coporation for National and Community Service</b>						
<i>Passed through Ohio Department of Education</i>						
Learn and Serve America_School and Community Based Programs	SVS1	94.004	3,177	-	1,907	-
<b>Centers for Medicare and Medicaid Services</b>						
State Children's Insurance Program	N	93.767	4,803	-	4,803	-
Medical Assistance Program	N	93.778	24,166	-	24,166	-
<b>Total Centers for Medicare and Medicaid Service</b>			28,969	-	28,969	-
<b>Total Federal Financial Assistance</b>			<u>\$ 1,977,890</u>	<u>\$ -</u>	<u>\$ 1,640,544</u>	<u>\$ -</u>

N/A - Not Available

N - Direct from federal agency

See accompanying notes to the Schedule of Federal Awards Expenditures

Educational Service Center of Lorain County  
Notes to Schedule of Federal Awards Receipts and Expenditures  
For the Fiscal Year Ended June 30, 2006

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards receipts and expenditures includes the federal grant activity of the Educational Service Center of Lorain County and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**BALESTRA, HARR & SCHERER, CPAs, INC.**

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board  
Educational Service Center of Lorain County  
1885 Lake Avenue  
Elyria, Ohio 44035

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lorain County (the Educational Service Center), as of and for the year ended June 30, 2006, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 13, 2006 in which we indicated the District implemented GASB Statement No. 42, GASB Statement No. 46, and GASB Statement No. 47. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

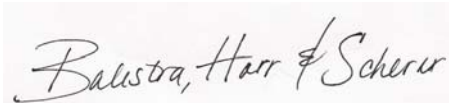
In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Service Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item number 2006-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and members of the Board, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

February 28, 2007

# BALESTRA, HARR & SCHERER, CPAs, INC.

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## **Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

Members of the Board  
Educational Service Center of Lorain County  
1885 Lake Avenue  
Elyria, Ohio 44035

### **Compliance**

We have audited the compliance of the Educational Service Center of Lorain County (the Educational 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 are applicable to its major federal program for the year ended June 30, 2006. The Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Educational Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Educational Service Center's compliance with those requirements.

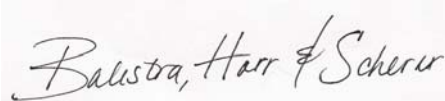
In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

### **Internal Control Over Compliance**

The management of the Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit we considered the internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulation, contracts and grants caused by an error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

February 28, 2007



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**OMB CIRCULAR A -133 SECTION .505**

**EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY**  
**LORAIN COUNTY, OHIO**  
**JUNE 30, 2006**

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs= Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under ' .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Special Education Cluster, CFDA# 84.027 & 84.173
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
LORAIN COUNTY, OHIO  
JUNE 30, 2006

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

**Finding Number 2006-001**

**Service Organization Reporting**

Statement on Auditing Standards (SAS) No. 70, Service Organizations, is a recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). A SAS 70 audit is widely recognized, because it represents that a service organization has been through an in-depth audit of their control activities, which generally include controls over information technology and related processes. Service organizations must demonstrate that they have adequate internal controls and safeguards in place to secure processing and information of their customers.

The Service Center has an agreement with Lake Erie Regional Council (LERC), a service provider, to provide claims processing for the Service Center's self-insurance program. Under SAS 70, the Service Center should be receiving a SAS 70 report from their service organization annually. For the period under audit, a SAS 70 report was not available.

To reasonably ensure the completeness and accuracy of claims processed by LERC, a SAS 70 Tier II report which prescribes testing and reporting standards for audits of claims processing internal controls in place at the service organization should be provided. Such a report, if unqualified, would provide evidence to the Service Center's management that claims are being processed in conformance with the Service Center's health insurance plan.

The Educational Service Center intends to obtain a SAS-70 report for the Lake Erie Regional Council.

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

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	

**EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
*OMB CIRCULAR A-133 §.315(b)*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	Service Organization Reporting – the Educational Service Center did not receive a SAS 70 report for the Lake Erie Regional Council (LERC)	No	Reissued as Finding No. 2006-001





**Mary Taylor, CPA**  
Auditor of State

**EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY**

**LORAIN 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  
JUNE 21, 2007**