Cuyahoga County Educational Service Center, Ohio

Basic Financial Statements
June 30, 2008

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Cuyahoga County Educational Service Center, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 Cuyahoga County Educational Service Center is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 14, 2010

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Cuyahoga County Educational Service Center, Ohio

For The Year Ended June 30, 2008

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Independent Auditor's Report

Governing Board
Cuyahoga County Educational Service Center

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga County Educational Service Center, (the "Service Center") as of and for the year ended June 30, 2008, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the 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 Service Center, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the financial statements, during the year ended June 30, 2008, the Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)"; GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues"; and GASB Statement No. 50, "Pension Disclosures."

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Governing Board
Cuyahoga County Educational Service Center

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2010, on our consideration of the Service Center's internal control over financial reporting and on 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 and budgetary comparison information on pages 4 through 10 and pages 38 through 39, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Ciuni & Panichi, Inc.

Cleveland, Ohio
January 11, 2010

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The management's discussion and analysis of Cuyahoga County Educational Service Center's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2008. The intent of the management's discussion and analysis is to look at the Service Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for 2008 include:

- Total assets increased by $5,056,205, and liabilities increased by $960,580 over fiscal year 2007. This resulted in an overall increase in net assets of $4,095,625.

- Total revenues of $78,952,069 were comprised of general revenues in the amount of $7,572,747 and program specific revenues from charges for services and operating grants and contributions in the amount of $71,379,322.

- Total revenues increased by $7,255,925, or 10.12 percent, over fiscal year 2007. This included a $4,422,743 increase in program revenues and a $2,833,182 increase in general revenues.

- Total program expenses increased by $4,666,309, or 6.65 percent, over fiscal year 2007.

- Total capital assets decreased $18,002 from fiscal year 2007. This is due to annual depreciation expense exceeding capital asset additions.

Using this Annual Financial Report

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

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

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

Reporting the Service Center as a Whole (district wide)

Statement of Net Assets and the Statement of Activities

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

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

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

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major funds begins on page 8. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds are the general fund and the local grants special revenue fund.

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

The Service Center as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the Service Center as a whole. Table 1 provides a summary of the Service Center's net assets for 2008 compared to 2007:

(Table 1)
Net Assets

	Governmental Activities		
	2008	2007	Change
Assets			
Current and Other Assets	$34,552,777	$29,478,570	$5,074,207
Capital Assets, Net	6,292,390	6,310,392	(18,002)
Total Assets	40,845,167	35,788,962	5,056,205
Liabilities			
Current and Other Liabilities	6,606,126	5,542,954	1,063,172
Long-Term Liabilities:			
Due Within One Year	1,278,863	1,251,521	27,342
Due in More than One Year	2,168,268	2,298,202	(129,934)
Total Liabilities	10,053,257	9,092,677	960,580
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,419,390	4,372,392	46,998
Restricted	830,590	1,567,665	(737,075)
Unrestricted	25,541,930	20,756,228	4,785,702
Total Net Assets	$30,791,910	$26,696,285	$4,095,625

Total assets increased due to increased program revenues and positive cash flow from those operations. The Service Center completed renovations of the property purchased in the previous year. The renovation program was a phased outlay designed to bring together the data center, special education regional resource center, Praxis III, school improvement services and other programs to a campus environment.

Liabilities increased as a result of increases in accrued wages and benefits and intergovernmental payables.

The net effect of the increase in assets over the increase in liabilities resulted in an increase of total net assets of $4,095,625 over fiscal year 2007.

Table 2 shows the change in net assets for fiscal year 2008 as compared to fiscal year 2007.

(Table 2)
Change in Net Assets
Governmental Activities

	2008	2007	Change
Revenues			
Program Revenues:			
Charges for Services and Sales	$51,595,348	$49,529,990	$2,065,358
Operating Grants and Contributions	19,783,974	17,426,589	2,357,385
Total Program Revenues	71,379,322	66,956,579	4,422,743
General Revenues:			
Grants and Entitlements	6,284,495	2,588,389	3,696,106
Contributions and Donations	0	5,324	(5,324)
Interest	929,975	923,295	6,680
Miscellaneous	358,277	1,222,557	(864,280)
Total General Revenues	7,572,747	4,739,565	2,833,182
Total Revenues	78,952,069	71,696,144	7,255,925
Program Expenses			
Instruction	26,140,338	25,912,848	227,490
Support Services:			
Pupil and Instructional Staff	22,991,165	21,626,732	1,364,433
Board of Education, Administration, Fiscal and Business	16,211,303	15,449,323	761,980
Operation and Maintenance of Plant	1,101,556	646,575	454,981
Pupil Transportation	2,851	1,657	1,194
Central	34,646	34,895	(249)
Operation of Noninstructional Services	8,285,594	6,426,988	1,858,606
Extracurricular Activities	1,207	388	819
Interest and Fiscal Charges	87,784	90,729	(2,945)
Total Program Expenses	74,856,444	70,190,135	4,666,309
Increase in Net Assets	4,095,625	1,506,009	2,589,616
Net Assets Beginning of Year	26,696,285	25,190,276	1,506,009
Net Assets End of Year	$30,791,910	$26,696,285	$4,095,625

Program revenues increased by $4,422,743 due to an increase in charges for services. The general revenue increase of $2,833,182 is mainly due to receiving a large federal grant and higher interest rates with more dollars invested, thus increasing investment earnings. Program expenses increased by $4,666,309 due to the increased cost of labor-intensive special education programs serving more students. A shift in the number of administrative positions provided to all service districts drove up the board of education, administrative, and fiscal expenses. Operation of non-instructional services expense increased by $1,858,606 in fiscal year 2008 primarily due to the cost of operations for the Professional Development Center for one complete full year of operations.

Governmental Activities

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

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for governmental activities. Table 3 shows the total cost of services and the net cost of services. The ($3,477,122) *Net Cost of Services 2008* tells the reader that overall these services are not self-supporting and must rely on unrestricted State entitlements and unrestricted net assets to operate this fiscal year.

(Table 3)
Governmental Activities

	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Instruction	$26,140,338	($1,478,115)	$25,912,848	($1,692,284)
Support Services:				
Pupil and Instructional Staff	22,991,165	(1,725,817)	21,626,732	(578,424)
Board of Education, Administration, Fiscal and Business	16,211,303	(1,468,579)	15,449,323	(1,585,992)
Operation and Maintenance of Plant	1,101,556	34,513	646,575	998,081
Pupil Transportation	2,851	5,774	1,657	(117)
Central	34,646	(5,655)	34,895	(7,127)
Operation of Non-Instructional Services	8,285,594	264,277	6,426,988	(276,936)
Extracurricular Activities	1,207	984,264	388	(28)
Interest and Fiscal Charges	87,784	(87,784)	90,729	(90,729)
Totals	$74,856,444	($3,477,122)	$70,190,135	($3,233,556)

The Service Center's Funds

Information about the Service Center's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of $75,485,623 and total expenditures of $74,941,034, leaving a fund balance at fiscal year-end of $23,507,838.

The net change in fund balance for the year was most significant in the general fund with an increase of $1,437,472. The net result of all funds is an increase of $544,589 resulting from a higher increase in overall revenues netted against the increase in overall expenditures.

The general fund had total revenues of $56,104,433, comprised mostly of tuition and fees of $37,290,701 or 66.47 percent and charges for services of $10,820,131 or 19.29 percent. The remaining 14.24 percent was for intergovernmental revenues, interest, rentals, extracurricular activities, contributions and donations, and miscellaneous revenues. The total expenditures were $54,666,961, with $24,370,079 or 44.58 percent for instructional services and $30,141,897, or 55.14 percent, for support and administrative services. The remaining .28 percent represents services/activities outside of the various school districts serviced by the Service Center. The net effect of revenues and expenditures leaves the general fund with a $24,506,378 fund balance for fiscal year 2008, a $1,437,472 increase from fiscal year 2007.

The local grants special revenue fund had total revenues of $12,233,274. The majority of intergovernmental revenues are used to provide non-instructional community services. Total expenditures that provide the support, administrative and non-instructional services that include programs for handicapped students, family intervention and the operation of the Professional Development Center were $11,960,831. The net effect of the revenues received and the expenditures incurred leaves the local grants special revenue fund with a $973,953 deficit fund balance at the end of fiscal year 2008, a $272,443 increase from fiscal year 2007.

Capital Assets

At the end of fiscal year 2008, the Service Center had $6,292,390 invested in land, construction in progress, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2008 balances compared to fiscal year 2007. More detailed information is presented in Note 9 of the notes to the basic financial statements.

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

	Governmental Activities	
	2008	2007
Land	$536,778	$536,778
Construction in Progress	77,199	102,011
Buildings and Improvements	5,093,920	5,259,456
Furniture and Equipment	576,672	499,116
Vehicles	7,821	15,042
Total Capital Assets	$6,292,390	$6,310,392

Debt

The Service Center entered into a capital lease through a lease-purchase agreement in the amount of $2,000,000 in 2006 for capital improvements for the Service Center's buildings. At the end of fiscal year 2008, the outstanding balance on the lease was $1,873,000. More detailed information is presented in Note 14 and 15 of the notes to the basic financial statements.

Current Financial Related Activities

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

Fiscal year 2008 was a good year from a service delivery standpoint as well as financially. The Service Center benefited from strong collections of invoices and new grants while providing more services to districts. Expanded services included North Coast Academy, LEP Title III, Hearing and Vision and Itinerant Services.

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

Contacting the Service Center's Financial Management

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

Basic Financial Statements

Cuyahoga County Educational Service Center

Statement of Net Assets

June 30, 2008

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	$21,642,129
Accrued Interest Receivable	66,683
Accounts Receivable	310,676
Intergovernmental Receivable	12,533,289
Nondepreciable Capital Assets	613,977
Depreciable Capital Assets, Net	5,678,413
Total Assets	40,845,167
Liabilities	
Accounts Payable	1,710,173
Accrued Wages and Benefits	4,123,993
Intergovernmental Payable	771,960
Long-Term Liabilities:	
Due Within One Year	1,278,863
Due In More Than One Year	2,168,268
Total Liabilities	10,053,257
Net Assets	
Invested in Capital Assets, Net of Related Debt	4,419,390
Restricted for:	
Professional Development	160,721
Peer Assistance	388,494
Title VI-B	202,058
Other Purposes	79,317
Unrestricted	25,541,930
Total Net Assets	$30,791,910

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2008

		Program Revenues		Net Revenue (Expense) and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	$1,700,980	$416,898	$1,218,686	($65,396)
Special	24,129,986	22,000,359	738,139	(1,391,488)
Vocational	278,481	257,549	20	(20,912)
Adult/Continuing	30,891	0	30,572	(319)
Support Services:				
Pupil	7,425,138	4,394,780	2,628,876	(401,482)
Instructional Staff	15,566,027	11,359,483	2,882,209	(1,324,335)
Board of Education	59,132	54,578	844	(3,710)
Administration	14,560,967	10,795,858	2,624,921	(1,140,188)
Fiscal	1,557,604	693,108	548,403	(316,093)
Business	33,600	24,945	67	(8,588)
Operation and Maintenance of Plant	1,101,556	859,630	276,439	34,513
Pupil Transportation	2,851	8,624	1	5,774
Central	34,646	17,422	11,569	(5,655)
Operation of Non-Instructional Services	8,285,594	536,413	8,013,458	264,277
Extracurricular Activities	1,207	175,701	809,770	984,264
Interest and Fiscal Charges	87,784	0	0	(87,784)
Totals	$74,856,444	$51,595,348	$19,783,974	(3,477,122)

General Revenues	
Grants and Entitlements not Restricted to Specific Programs	6,284,495
Investment Earnings	929,975
Miscellaneous	358,277
Total General Revenues	7,572,747
Change in Net Assets	4,095,625
Net Assets Beginning of Year	26,696,285
Net Assets End of Year	$30,791,910

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Balance Sheet
Governmental Funds
June 30, 2008

	General	Local Grants	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	$17,477,247	$3,251,263	$913,619	$21,642,129
Receivables:				
Accrued Interest	66,683	0	0	66,683
Accounts	310,676	0	0	310,676
Intergovernmental	9,918,408	1,292,489	1,322,392	12,533,289
Interfund Receivable	5,083,000	0	0	5,083,000
Total Assets	$32,856,014	$4,543,752	$2,236,011	$39,635,777
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	$483,802	$1,077,735	$148,636	$1,710,173
Accrued Wages and Benefits	3,735,464	1,523	387,006	4,123,993
Intergovernmental Payable	628,958	78,447	64,555	771,960
Interfund Payable	0	4,360,000	723,000	5,083,000
Deferred Revenue	3,501,412	0	937,401	4,438,813
Total Liabilities	8,349,636	5,517,705	2,260,598	16,127,939
Fund Balances				
Reserved for Encumbrances	442,262	2,141,380	583,162	3,166,804
Unreserved, Undesignated				
Reported in:				
General Fund	24,064,116	0	0	24,064,116
Special Revenue Funds (Deficit)	0	(3,115,333)	(607,749)	(3,723,082)
Total Fund Balances	24,506,378	(973,953)	(24,587)	23,507,838
Total Liabilities and Fund Balances	$32,856,014	$4,543,752	$2,236,011	$39,635,777

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2008

Total Governmental Fund Balances		$23,507,838
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		6,292,390
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Tuition and Fees	$3,185,974	
Charges for Services	407,638	
Grants	844,901	
Rentals	300	
Total		4,438,813
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(1,574,131)	
Capital Lease	(1,873,000)	
Total		(3,447,131)
Net Assets of Governmental Activities		$30,791,910

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2008

	General	Local Grants	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	$6,284,495	$12,181,708	$7,147,916	$25,614,119
Interest	929,975	0	0	929,975
Tuition and Fees	37,290,701	0	0	37,290,701
Rentals	423,063	0	0	423,063
Charges for Services	10,820,131	43,400	0	10,863,531
Extracurricular Activities	1,980	0	0	1,980
Contributions and Donations	3,977	0	0	3,977
Miscellaneous	350,111	8,166	0	358,277
Total Revenues	56,104,433	12,233,274	7,147,916	75,485,623
Expenditures				
Current:				
Instruction:				
Regular	450,052	0	1,248,216	1,698,268
Special	23,642,011	0	521,378	24,163,389
Vocational	278,016	0	0	278,016
Adult/Continuing	0	0	30,891	30,891
Support Services:				
Pupil	4,838,196	1,075,987	1,497,027	7,411,210
Instructional Staff	12,166,102	0	3,475,267	15,641,369
Board of Education	59,132	0	0	59,132
Administration	11,442,251	2,171,100	875,989	14,489,340
Fiscal	746,464	441,709	364,466	1,552,639
Business	33,600	0	0	33,600
Operation and Maintenance of Plant	834,600	0	273,063	1,107,663
Pupil Transportation	2,851	0	0	2,851
Central	18,701	0	15,577	34,278
Operation of Non-Instructional Services	994	8,272,035	11,368	8,284,397
Extracurricular Activities	1,207	0	0	1,207
Debt Service:				
Principal Retirement	65,000	0	0	65,000
Interest and Fiscal Charges	87,784	0	0	87,784
Total Expenditures	54,666,961	11,960,831	8,313,242	74,941,034
Net Change in Fund Balances	1,437,472	272,443	(1,165,326)	544,589
Fund Balances (Deficit) Beginning of Year	23,068,906	(1,246,396)	1,140,739	22,963,249
Fund Balances (Deficit) End of Year	$24,506,378	($973,953)	($24,587)	$23,507,838

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

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, 2008

Net Change in Fund Balances - Total Governmental Funds		$544,589
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital Asset Additions	$254,046	
Current Year Depreciation	(266,394)	
Total		(12,348)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(5,654)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tuition and Fees	2,758,636	
Charges for Services	168,312	
Grants	542,873	
Rentals	(3,375)	
Total		3,466,446
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		65,000
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		37,592
Change in Net Assets of Governmental Activities		$4,095,625

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2008

Assets	
Equity in Pooled Cash and Cash Equivalents	$295,625
Accounts Receivable	45,193
Total Assets	$340,818
Liabilities	
Intergovernmental Payable	$340,818

See accompanying notes to the basic financial statements

Note 1 – Description of the Service Center

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

The Service Center operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State or federal agencies to one exempted village, three local, and twenty-seven city school districts and to two career centers. The Board controls the Service Center's staff who provide services to over 183,091 students. The Service Center's Positive Education Program (PEP) also draws students from all of northeast Ohio, sometimes from as far away as Toledo and Columbus.

Reporting Entity

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

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

The Service Center participates in four jointly governed organizations. These organizations are the Lakeshore Northeast Ohio Computer Association, Cuyahoga Media Center, Positive Education Program, and the Cuyahoga County Special Education Regional Resource Center. These organizations are presented in Note 16 in the notes to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

> ***General Fund*** The general fund is the operating fund of the Service Center and is used to account for all financial resources except those required to be accounted for in another fund.
>
> ***Local Grants Fund*** The local grants fund accounts for proceeds of specific revenue sources, except for state and federal grants, that are legally restricted to expenditures for specific purposes.

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

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

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 Service Center are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

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 use the accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

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

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

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

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

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

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

E. Cash and Cash Equivalents

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

The Service Center has segregated bank accounts for monies held separate from the Service Center's central bank accounts. These accounts are presented as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the Service Center's treasury.

During fiscal year 2008, investments were limited to Commercial Paper, Victory Federal Money Market Mutual Fund, and STAROhio. Investments are reported at fair value. Fair value for the mutual fund is based on the fund's current share price.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2008.

Following Ohio statutes, the Board has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to $929,975 which includes $220,107 assigned from other Service Center funds.

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Capital Assets

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

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

All capital assets are depreciated except for land and construction in progress**.** 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:

Description	Estimated Lives
Buildings	75 years
Building Improvements	15 years
Furniture and Equipment	5-20 years
Vehicles	2-5 years

H. Interfund Balances

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

I. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Service

Center's termination policy. The Service Center records a liability for accumulated unused sick leave for classified, certified and administrative employees after ten years of current service with the Service Center.

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include the EMIS, School Net, Alternative Schools, LEP/Immigrant Title III, Title I, and Preschool programs.

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

L. Fund Balance Reserves

The Service Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances.

M. Internal Activity

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

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

N. Extraordinary and Special Items

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

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.

Note 3- Change in Accounting Principles

For 2008, the Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximated employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The implementation of this statement did not result in any change to the District's financial statements. An OPEB liability at transition was determined in accordance with this Statement for both the SERS and STRS post-employment healthcare plans in the amount of $786,852 and $210,484, respectively, which are the same as previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

Note 4 – Fund Deficits

At June 30, 2008, the Local Grants, Teacher Development, Title VI-B and the Miscellaneous Federal Grants special revenue funds had fund deficits of $973,953, $8,148, $223,992 and $74,296, respectively. These deficits are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

Note 5 – Deposits and Investments

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

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

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

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

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

3. Written repurchase agreements in the securities listed above;

4. Bonds and other obligations of the State of Ohio;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);

7. The State Treasurer's investment pool (STAROhio); and

8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, $16,530,776 of the Service Center's bank balance of $16,798,384 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Service Center to a successful claim by the FDIC.

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

Investments

As of June 30, 2008, the Service Center had Commercial Paper, Victory Federal Money Market Mutual Fund, and STAROhio investments. All investments are in an internal investment pool.

Investment Type	Fair Value	Average Maturity
Commercial Paper	$3,477,093	57 days
Victory Federal Money Market Mutual Fund	3,658,821	30 days
STAROhio	89,565	53.8 days
Total Investments	$7,225,479	

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

Credit Risk The Victory Federal Money Market Mutual Fund carries a rating of AAA by Standard & Poor's. STAROhio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAROhio and mutual funds maintain the highest rating provided by at least one nationally recognized standard rating service; commercial paper must be rated at the time of purchase in the highest classification established by two nationally recognized standard rating services. All Commercial Paper holdings were rated A1 by Standards and Poor's and Moody's Investor Services. The Service Center has no investment policy that would further limit its investment choices.

Note 6 – Receivables

Receivables at June 30, 2008, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Positive Education Program	$9,918,408
Parenting Subsidy	1,292,489
ORI-SIRI Grant Subsidy	31,712
Peer Assistance Grant Subsidy	668,374
Title VI-B Grant Subsidy	499,481
Title I Grant Subsidy	8,825
Preschool Disabilities Grant Subsidy	1,500
Miscellaneous Federal Grant Subsidy	112,500
Total	$12,533,289

Note 7 – State Funding

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

The Service Center also receives funding from the State Department of Education in the amount of $37 times the average daily membership of the Service Center. Average daily membership includes the total student counts of all local school districts within the Service Center's territory and all of the Service Center's client school districts. This amount is paid from State resources. The Department of Education also deducts from the State foundation program settlement of each of the Service Center's local and client school districts an amount equal to $6.50 times the school district's total student count and remits this amount to the Service Center.

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

Note 8 – Interfund Transactions

Interfund balances at June 30, 2008, consist of the following individual fund receivables and payables:

	Interfund Receivable
Interfund Payable	General Fund
Governmental Activities	
Local Grants	$4,360,000
Non-Major Funds	
Teacher Development	8,000
Peer Assistance	602,500
Miscellaneous Federal Grant	112,500
Total Governmental Activities	$5,083,000

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

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance 6/30/07	Additions	Deletions	Balance 6/30/08
Governmental Activities				
Capital Assets, not being depreciated:				
Land	$536,778	$0	$0	$536,778
Construction in Progress	102,011	77,199	(102,011)	77,199
Total Capital Assets, not being depreciated	638,789	77,199	(102,011)	613,977
Capital Assets, being depreciated:				
Buildings and Improvements	5,465,695	1,764	0	5,467,459
Furniture and Equipment	822,784	277,094	(49,766)	1,050,112
Vehicles	28,882	0	0	28,882
Total Capital Assets, being depreciated	6,317,361	278,858	(49,766)	6,546,453
Less Accumulated Depreciation				
Buildings and Improvements	(308,250)	(167,300)	0	(475,550)
Furniture and Equipment	(323,668)	(91,873)	44,112	(371,429)
Vehicles	(13,840)	(7,221)	0	(21,061)
Total Accumulated Depreciation	(645,758)	(266,394) *	44,112	(868,040)
Total Capital Assets, being depreciated, net	5,671,603	12,464	(5,654)	5,678,413
Governmental Activities Capital Assets, Net	$6,310,392	$89,663	($107,665)	$6,292,390

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$19,701
Special	11,356
Support Services:	
Pupils	3,856
Instructional Staff	16,122
Administration	194,171
Fiscal	20,292
Central	896
Total Depreciation Expense	$266,394

Note 10 – Risk Management

A. Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2008, the Service Center contracted with The Netherlands Insurance Company for the following insurance:

Type	Amount
General Liability:	
Bodily Injury (Aggregate Limit)	$3,000,000
Personal Injury/Advertising Liability	1,000,000
Products/Completed Operations	2,000,000
General Annual Aggregate	2,000,000
Fire Legal Liability	300,000
Sexual Misconduct & Molestation Liability	1,000,000
Medical Expense Limit	15,000
Property	
Blanket Building and Contents	6,080,765
Educators' Legal Liability:	
Errors or Omissions Coverage	1,000,000
Automobile Liability:	
Medical Payments	5,000
Uninsured/Underinsured Motorist	1,000,000
Bodily Injury and Property Damage	1,000,000

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

B. Workers' Compensation

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

Note 11 – Pension Plans

A. School Employee Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were $1,724,298, $1,850,398 and $1,875,961 respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006.

B. State Teachers Retirement System

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

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

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

Funding Policy **-** For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were $2,736,288, $2,608,665, and $2,657,409 respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were $54,136 made by the School District and $104,734 made by the plan members.

Note 12 – Postemployment Benefits

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was $297,820.

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

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $1,084,672, $906,312, and $874,977 respectively; 94.24 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were $124,240, $125,827, and $135,486 respectively; 99.34 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $210,484, $200,667, and $634,753 respectively; 99 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Note 13 – Other Employee Benefits

A. Compensated Absences

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

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

B. Life Insurance

The Service Center provides life insurance and accidental death and dismemberment insurance to all employees through the Met Life Insurance Company.

C. Health Insurance

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

Note 14 – Long-Term Obligations

The changes in the Service Center's long-term obligations during fiscal year 2008 were as follows:

	Outstanding June 30, 2007	Additions	Deductions	Outstanding June 30, 2008	Due Within One Year
Capital Lease	$1,938,000	$0	$65,000	$1,873,000	$68,000
Compensated Absences	1,611,723	724,515	762,107	1,574,131	1,210,863
Total	$3,549,723	$724,515	$827,107	$3,447,131	$1,278,863

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

Note 15 – Capital Lease

During fiscal year 2006, the Service Center entered into a capital lease for capital improvements to the Service Center's buildings. This lease meets the criteria for capital leases as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases." Capital assets acquired by lease have been capitalized in the amount of $2,000,000. This amount represents the present value of the minimum lease payments at the time of acquisition. The assets acquired through capital lease are as follows:

Asset:	
Buildings and Improvements	$2,000,000
Less: Accumulated Depreciation	(213,334)
Total Book Value as of June 30, 2008	$1,786,666

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2008.

	Governmental Activities
2009	$152,701
2010	152,477
2011	153,090
2012	152,544
2013	152,832
2014-2018	763,922
2019-2023	765,619
2024-2026	458,743
Total Minimum Lease Payments	2,751,928
Less: Amounts Representing Interest	(878,928)
Present Value of Minimum Lease Payments	$1,873,000

Note 16 – Jointly Governed Organizations

A. Lakeshore Northeast Ohio Computer Association (LNOCA)

LNOCA is a jointly governed organization among sixteen school districts in Cuyahoga County and the Service Center. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports LNOCA based on a per pupil charge. The Service Center contributed $10,000 to LNOCA during the fiscal year 2008 which was .34 percent of total revenues received by LNOCA.

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

B. Cuyahoga Media Center (Media Center)

The Media Center is a jointly governed organization among seventeen school districts and the Service Center. The jointly governed organization was formed for the purpose of providing media services to the participants. Each of the districts supports the Media Center based on a per pupil charge. The Media Center is a jointly governed organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The Service Center did not make any contributions to the Media Center in the fiscal year 2008.

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

C. Positive Education Program (PEP)

The PEP is a non-profit organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center did not make any contributions to PEP in fiscal year 2008.

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

D. Educational Regional Service System Region 3

The Service Center participates in the Educational Regional Service System (ERSS) Region 3, a jointly governed organization consisting of educational entities within Cuyahoga County. The ERSS selects its own board, adopts its own budget and receives Ohio Department of Education grants for its operations. The purpose of the ERSS is to provide support services to school districts, community schools, and chartered nonpublic schools within the region by supporting State and school initiatives and efforts to improve school effectiveness and student achievement with a specific reference to the provision of special education and related services. The Service Center did not make any contributions to ERSS in fiscal year 2008.

The ERSS is governed by an advisory council, which is the policymaking body for the educational entities within the region, who identifies regional needs and priorities for educational services and develops corresponding policies to coordinate the delivery of services. They are also charged with the responsibility of monitoring the implementation of State and regional initiatives and school improvement efforts. The Advisory Council is made up of the director of the ERSS, the superintendent of each educational service center within the region, the superintendent of the region's largest and smallest school district, the director and an employee from each education technology center, one representative of a four-year institution of higher education and appointed by the Ohio Board of Regents, one representative of a two-year institution of higher education and appointed by the Ohio Association of Community Colleges, three board of education members (one each from a city, exempted village, and local school district within the region), and one business representative. The degree of control exercised by any participating educational entity is limited to its representation on the Advisory Council. To obtain a copy of the ERSS's financial statements, write to the Service Center at 5811 Canal Road, Valley View, Ohio 44125.

Note 17 – Contingencies

A. Grants

The Service Center received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2008.

B. Litigation

The Service Center is a party to legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2008.

Note 18 - Contractual Commitments

The Service Center had the following contractual commitments outstanding at June 30, 2008:

Contractor	Contract Amount	Paid Amount	Remaining on Contract
DVS Builders Inc.	$344,055	$70,991	$273,064
Dodson and Associates, Inc.	89,562	6,208	83,354
	$433,617	$77,199	$356,418

Supplemental Information

Cuyahoga County Educational Service Center

Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues				
Intergovernmental	$4,794,117	$6,284,495	$6,284,495	$0
Interest	689,948	918,471	918,471	0
Tuition and Fees	35,081,105	41,965,226	41,965,226	0
Rentals	317,238	422,313	422,313	0
Charges for Services	8,848,268	10,686,435	10,686,435	0
Extracurricular Activities	3,137	1,980	1,980	0
Contributions and Donations	2,988	3,977	3,977	0
Miscellaneous	295,453	350,111	350,111	0
Total Revenues	50,032,254	60,633,008	60,633,008	0
Expenditures				
Current:				
Instruction:				
Regular	617,864	471,485	471,485	0
Special	21,660,841	23,328,439	23,328,439	0
Vocational	1,200	279,421	279,421	0
Support Services:				
Pupil	4,604,413	4,694,607	4,694,606	1
Instructional Staff	12,252,821	12,207,678	12,207,678	0
Board of Education	44,247	66,251	66,251	0
Administration	8,252,500	11,143,826	11,668,171	(524,345)
Fiscal	215,034	661,417	661,417	0
Business	0	30,912	30,912	0
Operation and Maintenance of Plant	25,524	1,009,397	1,009,397	0
Pupil Transportation	0	2,851	2,851	0
Central	0	18,889	18,889	0
Operation of Non-Instructional Services	0	1,130	1,130	0
Extracurricular Activities	2,000	1,232	1,232	0
Debt Service:				
Principal Retirement	0	65,000	65,000	0
Total Expenditures	47,676,444	53,982,535	54,506,879	(524,344)
Excess of Revenues Over Expenditures	2,355,810	6,650,473	6,126,129	(524,344)
Other Financing Sources (Uses)				
Advances In	6,020,200	5,803,700	1,972,700	(3,831,000)
Advances Out	(9,135,800)	(8,914,000)	(5,083,000)	3,831,000
Total Other Financing Sources (Uses)	(3,115,600)	(3,110,300)	(3,110,300)	0
Net Change in Fund Balance	(759,790)	3,540,173	3,015,829	(524,344)
Fund Balance Beginning of Year	12,806,236	12,806,236	12,806,236	0
Prior Year Encumbrances Appropriated	333,072	333,072	333,072	0
Fund Balance End of Year	$12,379,518	$16,679,481	$16,155,137	($524,344)

See accompanying notes to the supplemental information

Supplemental Information

Cuyahoga County Educational Service Center

Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Local Grants Fund
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	$7,710,807	$11,114,219	$11,114,219	$0
Customer Services	30,110	43,400	43,400	0
Miscellaneous	5,688	8,166	8,166	0
Total Revenues	7,746,605	11,165,785	11,165,785	0
Expenditures				
Current:				
Support Services:				
Pupils	881,576	1,101,096	1,101,096	0
Instructional Staff	0	4,000	4,000	0
Administration	1,609,284	2,222,107	2,222,107	0
Fiscal	229,899	485,228	485,228	0
Operation of Non-Instructional Services	7,508,645	7,762,253	10,926,685	(3,164,432)
Total Expenditures	10,229,404	11,574,684	14,739,116	(3,164,432)
Excess of Revenues Under Expenditures	(2,482,799)	(408,899)	(3,573,331)	(3,164,432)
Other Financing Sources (Uses)				
Advances In	4,360,000	4,360,000	4,360,000	0
Advances Out	(719,000)	(1,512,700)	(1,512,700)	0
Total Other Financing Sources (Uses)	3,641,000	2,847,300	2,847,300	0
Net Change in Fund Balance	1,158,201	2,438,401	(726,031)	(3,164,432)
Fund Balance Beginning of Year	91,230	91,230	91,230	0
Prior Year Encumbrances Appropriated	696,548	696,548	696,548	0
Fund Balance End of Year	$1,945,979	$3,226,179	$61,747	($3,164,432)

See accompanying notes to the supplemental information

Note 1 – Budgetary Basis of Accounting

A. Budgetary Process

The Service Center is no longer required under State statue to file budgetary information with the State Department of Education. However, the Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources. The resolution sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

The Treasurer reviews the prior year's revenues and factors in the wages expected to be charged for the services offered and the grants anticipated to be received in order to determine the estimated resources for the current year. The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts of the estimated resources approved by the Board when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts of the estimated resources that was in effect at the time the final appropriations were passed by the Board. Prior to June 30, the Board passed an appropriation resolution which matched actual expenditures during the fiscal year plus encumbrances outstanding at fiscal year end.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. Prior to June 30, the Board passed an appropriation resolution which matched most actual expenditures during the fiscal year plus encumbrances outstanding at fiscal year end.

B. Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

5. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

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

Net Change in Fund Balance

	General	Local Grants
GAAP Basis	$1,437,472	$272,443
Net Adjustment for Revenue Accruals	5,084,655	(1,042,405)
Ending Unrecorded Cash	(556,080)	(25,084)
Advance In	1,972,700	4,360,000
Net Adjustment for Expenditure Accruals	684,426	386,147
Advance Out	(5,083,000)	(1,512,700)
Adjustment for Encumbrances	(524,344)	(3,164,432)
Budget Basis	$3,015,829	($726,031)

Ciuni & Panichi
CPAs and Business Advisors

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*

Governing Board
Cuyahoga County Educational Service Center

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga County Educational Service Center, (the "Service Center") as of and for the year ended June 30, 2008, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated January 11, 2010, wherein we noted the Service Center implemented GASB Statement No's 45, 48, and 50, as disclosed in Note 3. 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 Service Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Service Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Service Center's financial statements that is more than inconsequential will not be prevented or detected by the Service Center's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2008-1.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Service Center's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.*

We noted certain matters that we reported to management of the Service Center in a separate letter dated January 11, 2010.

The Service Center's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Service Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Service Center Board, others within the entity, the Auditor of State's Office, 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.

Ciuni & Panichi, Inc.

Cleveland, Ohio
January 11, 2010

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

Governing Board
Cuyahoga County Educational Service Center

Compliance

We have audited the compliance of the Cuyahoga County Educational Service Center, (the "Service Center") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Service Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the 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 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 Service Center's compliance with those requirements.

As described in items 2008-2, 2008-3, 2008-4, 2008-5, and 2008-6 in the accompanying schedule of findings, the Service Center did not comply with requirements regarding Cash Management and Reporting that are applicable to its Special Education Cluster grants, Subrecipient Monitoring and Reporting that are applicable to the Nutrition Cluster grant, and Reporting for the Teaching American History grant. Compliance with such requirements is necessary, in our opinion, for the Service Center to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

The management of the Service Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with the requirements that could 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Service Center's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in the Service Center's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Service Center's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Service Center's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2008-2, 2008-3, 2008-4, 2008-5, and 2008-6 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Service Center's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings, we consider items 2008-2, 2008-3, 2008-4, 2008-5, and 2008-6 to be material weaknesses.

The Service Center's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Service Center's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Service Center as of and for the year ended June 30, 2008, and have issued our report thereon dated January 11, 2010, wherein we noted the Service Center implemented GASB Statement No's 45, 48, and 50 as disclosed in Note 3.

Governing Board
Cuyahoga County Educational Service Center

Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Service Center's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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.

This report is intended solely for the information and use of management, Service Center Board, others within the entity, the Auditor of State's Office, 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.

Ciuni & Panichi, Inc.

Cleveland, Ohio
January 11, 2010

Cuyahoga County Educational Service Center, Ohio

Schedule of Expenditures of Federal Awards

For The Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Receipts	Disbursements
U.S. Department of Agriculture:			
Passed -Through Ohio Department of Education:			
Child Nutrition Cluster:			
Federal School Breakfast	10.553	$ 121,236	$ 121,236
National School Lunch Program	10.555	199,784	199,784
Total U.S. Department of Agriculture		321,020	321,020
U.S. Department of Education:			
Special Education-Parent Information Centers	84.328	102,693	105,417
Fund for the Improvement of Education			
Teaching American History	84.215X	490,575	384,009
Passed-Through Ohio Department of Education:			
Title I – Grants in Local Educational Agency	84.010	-	25,251
	84.010	5,742	4,453
	84.010	92,701	80,904
Total Title I		98,443	110,608
Special Education Cluster:			
Special Education-Grants to States	84.027	1,508,768	1,460,104
(IDEA Part B)	84.027	616,856	552,449
	84.027	667,461	761,710
	84.027	-	87,707
Total Special Part B		2,793,085	2,861,970
Special Education-Preschool Grants	84.173	17,455	17,081
	84.173	-	1,500
Total Special Preschool		17,455	18,581
Total Special Education Cluster		2,810,540	2,880,551
Special Education-State Personnel Development	84.323	31,226	41,980
	84.323	50,088	29,742
	84.323	93,750	72,792
Total Special Education-State Personal Development		175,064	144,514
Passed-Through Ohio Department of Health:			
English Language Acquisition Grant	84.365	-	8
	84.365	-	2,206
	84.365	69,216	66,321
Total English Language		69,216	68,535
Total U. S. Department of Education		3,746,531	3,693,634
U.S. Department of Health and Human Services:			
Refugee and Entrant Assistance Grant	93.576	14,560	13,871
Total Expenditures of Federal Awards		$ 4,082,111	$ 4,028,525

Cuyahoga County Educational Service Center, Ohio

Notes to the Schedule of Expenditures of Federal Awards

For The Year Ended June 30, 2008

Note 1: Significant Accounting Policies

A – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Service Center 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 Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal receipts from the U.S. Department of Agriculture are commingled with State grants and local revenues. It is assumed that federal monies are expended first.

CFDA – Catalog of Federal Domestic Assistance

B – Subrecipients

Certain funds are passed through to subgrantee organizations by the Service Center. Expenditures incurred by the subgrantees and reimbursed by the Service Center are included in the accompanying Schedule.

Cuyahoga County Educational Service Center

Schedule of Findings
OMB Circular A-133, Section .505

June 30, 2008

1. Summary of Auditors' Results

(d)(I)(I)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Was there any significant deficiencies reported at the financial statement level (GAGAS)?	Yes
(d)(I)(ii)	Were there any other material weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(I)(iii)	Was there any material noncompliance reported at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Was there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(I) (iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(I) (v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(I)(vi)	Are there any reportable findings under Section .510?	Yes
(d)(I)(vii)	Major Programs	Special Education Cluster, CFDA #'s 84.027 and 84.173 Child Nutrition Cluster, CFDA #'s 10.553 and 10.555 Teaching American History, CFDA # 84.215X
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: > $300,000 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	No

2. Findings Related to the Financial Statements Required To Be Reported In Accordance With GAGAS

Findings	Findings Summary
2008-1	***Financial Reporting – Significant Deficiency / Material Weakness*** Sound financial reporting is the responsibility of the Treasurer and the Service Center Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. The following audit adjustments were made to the financial statements: 1. Adjusted the General Fund (Fund 101) and the Special Education Fund (Fund 516) for Special Education expenditures incorrectly coded to the General Fund. 2. Adjusted the grants receivable for understatement of amount originally recorded for the Special Education Cluster. 3. Adjusted the accounts payable for an understatement of the amount originally recorded. 4. Adjusted capital assets for improper recording of additions. 5. Adjusted deferred revenue for amounts received within the available period. 6. Adjusted prepaids balance to actual. The lack of controls over the posting of year-end financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data at year-end. We recommend the Service Center adopts policies and procedures for controls over recording of year-end financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the Service Center and thereby increasing the reliability of the financial data at year-end. Although the Service Center has contracted a third party to perform their GAAP Conversion, the Service Center's management needs to review the statements to be sure that all items are being properly recorded. **Officials Response:** Management will develop a process to oversee the GAAP conversion process more closely and have better communication with them.

3. Findings for Federal Awards

Findings	Findings Summary
2008-2	***Cash Management – Significant Deficiency / Material Weakness*** Per our review of the project cash requests throughout the year, it was noted that the Service Center is overstating the total cash basis expenditures line item as of the date of the cash request. The cash requested also exceeds the total expenditures to date plus any encumbrances subsequently liquidated within the request month. We recommend the Service Center ensure that the amounts reported under total award expenditures are reported on the cash basis. Encumbrances should not be included unless they will be liquidated within the request month. **Officials Response:** Amounts reported as expenditures on the project cash requests will be reported on the cash basis. Only encumbrances that will be liquidated within the request month will be included.
2008-3	***Reporting – Significant Deficiency / Material Weakness*** Per our review of the final expenditure reports for the Special Education Cluster Grants, we noted one final expenditure report was not submitted by the deadline as noted in the Grant Agreement. The final expenditure report was submitted in October 2008. We recommend the Service Center adopt policies and procedures to ensure the final expenditure reports are submitted by the required dates. **Officials Response:** Procedures will be implemented to ensure the final expenditure reports are submitted by required dates.
2008-4	***Reporting – Significant Deficiency / Material Weakness*** Per our testing of the Special Education Cluster, we discovered that grant expenditures were incorrectly recorded in the General Fund at year-end. This resulted in an audit adjustment to increase the grant expenditures which led to an adjustment to the schedule of federal expenditures. We recommend the Service Center adopt policies and procedures to ensure that the schedule of federal expenditures is reviewed for completeness at year-end. **Officials Response:** Procedures will be implemented to ensure the schedule of federal expenditures is complete.

2008-5	***Subrecipient Monitoring – Significant Deficiency / Material Weakness*** Per our testing performed, we determined that no subrecipient monitoring of the Nutrition Cluster Grant is being performed by the Service Center. Although the Service Center is a pass-through entity with the PEP Program as the subrecipient of the federal award, pass-through entities should monitor subrecipients during the grant period to ensure compliance with the applicable federal requirements. This can be done in numerous ways, one of which being to review the subreceipient's Single Audit reports and evaluate any audit findings. We recommend the Service Center adopt policies and procedures to ensure that subrecipient monitoring is being performed in accordance with the requirements of OMB Circular A-133. **Officials Response:** Procedures will be implemented to ensure that subrecipient monitoring is performed.
2008-6	***Federal Compliance – Reporting*** OMB Circular A-133 Section 300(e) provides that the auditee is responsible for appropriate submission of the audit reports to the appropriate government officials and organizations. OMB Circular A-133 Section 320(a) further provides that the audit report and data collection form must be submitted within the earlier of 30 days after the reports are received from the auditors, or nine months after the end of the audit period, unless a longer period is agreed upon in advance by the cognizant or oversight agency. No evidence was provided that the Service Center had notified the cognizant or oversight agency when it became apparent that an audit report and data collection form would not be available within the prescribed reporting time. We recommend the Service Center monitor the Reporting requirements to ensure proper submission of audit report filings or notification to the oversight agency. **Officials Response:** Procedures will be implemented to ensure that reporting is performed.

Cuyahoga County Educational Service Center

Schedule of Prior Year Findings
OMB Circular A-133, Section .315(b)

June 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2007-1	The following audit adjustment was made to the financial statements: Adjusted the accrued wages and benefits liability by $762,373 for amounts recorded from incorrect report at year-end.	No	Not corrected. See Finding 2008-1.
2007-2	The Service Center overstated the total cash-basis expenditures line item on the project cash requests. The cash requested also exceeded the total expenditures to date plus any encumbrances subsequently liquidated within the requested month.	No	Not corrected. See Finding 2008-2.
2007-3	Final expenditure report was submitted subsequent to the deadline as noted in the Grant Agreement.	No	Not corrected. See Finding 2008-3.

Mary Taylor, CPA
Auditor of State

CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 11, 2010

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