

Cuyahoga County Educational Service Center, Ohio

**Basic Financial Statements
June 30, 2009**



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, 2008 through June 30, 2009. 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 15, 2010

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Cuyahoga County Educational Service Center, Ohio

For The Year Ended June 30, 2009

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Cuyahoga County Educational Service Center, Ohio

For The Year Ended June 30, 2009

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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, 2009, 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, 2009, 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, 2009, the Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*; GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*; GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

Governing Board
Cuyahoga County Educational Service Center

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 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 37 through 38, 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.

Cini & Parichi, Inc.

Cleveland, Ohio
March 4, 2010

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Cuyahoga County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
Unaudited*

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, 2009. 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 2009 include:

- In fiscal year 2009, total assets decreased and liabilities increased from fiscal year 2008. This resulted in an overall decrease in net assets of \$2,051,443.
- Total revenues of \$67,689,343 were comprised of general revenues from grants and entitlements not restricted to specific programs, investment earnings and miscellaneous revenue and program specific revenues from charges for services and operating grants and contributions.
- Total revenues decreased from fiscal year 2008. This included an \$11,044,332 decrease in program revenues and a \$218,394 decrease in general revenues. Since many of the Service Center's clients reduced their demand for services due to the downturn in the economy, the revenues decreased.
- Total program expenses decreased by \$5,115,658 from fiscal year 2008. The Service Center introduced cost cutting measures in order to counterbalance the reduced revenues.
- Total capital assets increased \$271,066 over fiscal year 2008. This was due to the completion of the exterior renovation work to the computer center facility.

Using this Annual Financial Report

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

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

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

Cuyahoga County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
Unaudited*

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.

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2009

Unaudited

The Service Center as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the Service Center as a whole. Table 1 provides a summary of the Service Center's net assets for fiscal year 2009 compared to fiscal year 2008:

(Table 1)
Net Assets

| | Governmental Activities | | Change |
|--|-------------------------|---------------------|----------------------|
| | 2009 | 2008 | |
| Assets | | | |
| Current and Other Assets | \$32,840,945 | \$34,552,777 | (\$1,711,832) |
| Capital Assets, Net | 6,563,456 | 6,292,390 | 271,066 |
| <i>Total Assets</i> | <u>39,404,401</u> | <u>40,845,167</u> | <u>(1,440,766)</u> |
| Liabilities | | | |
| Current and Other Liabilities | 7,051,382 | 6,606,126 | (445,256) |
| Long-Term Liabilities: | | | |
| Due Within One Year | 1,486,453 | 1,278,863 | (207,590) |
| Due in More than One Year | 2,126,099 | 2,168,268 | 42,169 |
| <i>Total Liabilities</i> | <u>10,663,934</u> | <u>10,053,257</u> | <u>(610,677)</u> |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 4,758,456 | 4,419,390 | 339,066 |
| Restricted | 520,967 | 830,590 | (309,623) |
| Unrestricted | 23,461,044 | 25,541,930 | (2,080,886) |
| <i>Total Net Assets</i> | <u>\$28,740,467</u> | <u>\$30,791,910</u> | <u>(\$2,051,443)</u> |

Total assets decreased due to a combination of factors. The primary factor is the decrease of cash and investments. Investment earnings have plummeted due to the falling interest rates. More working capital has been demanded to start up and maintain programs during all the cut backs at the State and local levels. The Service Center also completed the last of its exterior renovation projects using up capital.

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

The net effect of the decrease in assets and the increase in liabilities resulted in a decrease of total net assets for fiscal year 2009.

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2009

Unaudited

Table 2 shows the change in net assets for fiscal year 2009 as compared to fiscal year 2008.

(Table 2)
Change in Net Assets
Governmental Activities

| | 2009 | 2008 | Change |
|--|---------------------|---------------------|----------------------|
| Revenues | | | |
| <i>Program Revenues:</i> | | | |
| Charges for Services and Sales | \$45,461,821 | \$51,595,348 | (\$6,133,527) |
| Operating Grants and Contributions | 14,873,169 | 19,783,974 | (4,910,805) |
| <i>Total Program Revenues</i> | <u>60,334,990</u> | <u>71,379,322</u> | <u>(11,044,332)</u> |
| <i>General Revenues:</i> | | | |
| Grants and Entitlements | 6,311,011 | 6,284,495 | 26,516 |
| Interest | 389,229 | 929,975 | (540,746) |
| Miscellaneous | 654,113 | 358,277 | 295,836 |
| <i>Total General Revenues</i> | <u>7,354,353</u> | <u>7,572,747</u> | <u>(218,394)</u> |
| Total Revenues | <u>67,689,343</u> | <u>78,952,069</u> | <u>(11,262,726)</u> |
| Program Expenses | | | |
| Instruction | 27,881,298 | 26,140,338 | 1,740,960 |
| <i>Support Services:</i> | | | |
| Pupil and Instructional Staff | 21,667,884 | 22,991,165 | (1,323,281) |
| Board of Education, Administration, Fiscal and Business | 14,250,159 | 16,211,303 | (1,961,144) |
| Operation and Maintenance of Plant | 935,590 | 1,101,556 | (165,966) |
| Pupil Transportation | 3,074 | 2,851 | 223 |
| Central | 153,962 | 34,646 | 119,316 |
| Operation of Non-Instructional Services | 4,711,537 | 8,285,594 | (3,574,057) |
| Extracurricular Activities | 52,582 | 1,207 | 51,375 |
| Interest and Fiscal Charges | 84,700 | 87,784 | (3,084) |
| <i>Total Program Expenses</i> | <u>69,740,786</u> | <u>74,856,444</u> | <u>(5,115,658)</u> |
| Increase (Decrease) in Net Assets | (2,051,443) | 4,095,625 | (6,147,068) |
| <i>Net Assets Beginning of Year</i> | <u>30,791,910</u> | <u>26,696,285</u> | <u>4,095,625</u> |
| <i>Net Assets End of Year</i> | <u>\$28,740,467</u> | <u>\$30,791,910</u> | <u>(\$2,051,443)</u> |

Program revenues decline due to decreases in the number and amount of charges for services and operating grants and contributions. The Service Center derives significant income from fiscal fees and administering various grants and programs. The overall economy in Ohio has forced the State Department of Education and local school district clients to cut back thus impacting the Service Center's billinf for basic services. The Service Center provides many services that are the first to be cut in tough economic times. Program expenses decreased in response to those declining billings and the number of grants. Personnel and program costs are tied directly to grant funding. Operation of non-instructional services expense decreased in fiscal year 2009 due to decreased enrollment in several programs.

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2009

Unaudited

Governmental Activities

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

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for governmental activities. Table 3 shows the total cost of services and the net cost of services. The (\$9,405,796) *Net Cost of Services 2009* 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 2009 | Net Cost of Services 2009 | Total Cost of Services 2008 | Net Cost of Services 2008 |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Instruction | \$27,881,298 | (\$4,263,336) | \$26,140,338 | (\$1,478,115) |
| Support Services: | | | | |
| Pupil and Instructional Staff | 21,667,884 | (2,514,078) | 22,991,165 | (1,725,817) |
| Board of Education, Administration, Fiscal and Business | 14,250,159 | (6,234,312) | 16,211,303 | (1,468,579) |
| Operation and Maintenance of Plant | 935,590 | 186,482 | 1,101,556 | 34,513 |
| Pupil Transportation | 3,074 | (505) | 2,851 | 5,774 |
| Central | 153,962 | (81,061) | 34,646 | (5,655) |
| Operation of Non-Instructional Services | 4,711,537 | 3,594,360 | 8,285,594 | 264,277 |
| Extracurricular Activities | 52,582 | (8,646) | 1,207 | 984,264 |
| Interest and Fiscal Charges | 84,700 | (84,700) | 87,784 | (87,784) |
| <i>Totals</i> | <u>\$69,740,786</u> | <u>(\$9,405,796)</u> | <u>\$74,856,444</u> | <u>(\$3,477,122)</u> |

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 \$66,812,104 and total expenditures of \$69,846,431, leaving a total fund balance at fiscal year-end of \$20,473,511.

The net change in fund balance for the year was most significant in the general fund with a decrease of \$2,855,207. In comparison, all funds decreased a total of \$3,034,327. The general fund is the primary source of start up funds for many of the other grant activities. Fast response to client needs and starting up an activity before initial funding arrives is what separates the Service Center from its competition. The down side to such a philosophy is that the Service Center will be an early barometer to cut backs and touch economic times. The nature of school employment law does make the Service Center vulnerable to second guessing the best management approach to riding out the down turn.

Cuyahoga County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
Unaudited*

The general fund expenditures exceeded revenues in fiscal year 2009 by \$2,855,207. But, expenditures decreased \$4,028 from fiscal year 2008 due to the Service Center implementing cost cutting measures.

The local grants special revenue fund had total revenues of \$7,762,403. The majority of intergovernmental revenues are used to provide non-instructional community services. Total expenditures are used to provide the support, administrative and non-instructional services that include programs for handicapped students, family intervention and the operation of the Professional Development Center. The net effect of the revenues received and the expenditures incurred leaves the local grants special revenue fund with a deficit fund balance at the end of fiscal year 2009; however, this is an increase of \$440,859 from fiscal year 2008.

Capital Assets

At the end of fiscal year 2009, the Service Center had \$6,563,456 invested in land, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2009 balances compared to fiscal year 2008. 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 | 2009 |
| Land | \$536,778 | \$536,778 |
| Construction in Progress | 77,199 | 0 |
| Buildings and Improvements | 5,093,920 | 5,431,275 |
| Furniture and Equipment | 576,672 | 594,802 |
| Vehicles | 7,821 | 601 |
| <i>Total Capital Assets</i> | <u>\$6,292,390</u> | <u>\$6,563,456</u> |

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 2009, the outstanding balance on the lease was \$1,805,000. More detailed information is presented in Note 14 of the notes to the basic financial statements.

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2009

Unaudited

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 2009 was a good year from a service delivery standpoint although financially the Service Center suffered a deficit. The Service Center delivered valuable programs to its clients and school districts in the face of unprecedented cut backs and economic downturn. Mid-year decreases in funding simply did not allow the Service Center to cut back fast enough. Preserving school district relations is as critical as the finances. Fiscal year 2010 will necessitate cuts within the Service Center's cost structure.

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

Contacting the Service Center's Financial Management

This financial report provides our citizen's, taxpayers, and investors and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact 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, 2009

| | Governmental Activities |
|---|----------------------------|
| <hr/> <hr/> | |
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$17,351,618 |
| Accrued Interest Receivable | 66,951 |
| Accounts Receivable | 524,057 |
| Intergovernmental Receivable | 14,898,319 |
| Nondepreciable Capital Assets | 536,778 |
| Depreciable Capital Assets, Net | 6,026,678 |
| | <hr/> |
| <i>Total Assets</i> | 39,404,401 |
| | <hr/> |
| Liabilities | |
| Accounts Payable | 1,083,380 |
| Accrued Wages and Benefits | 4,340,331 |
| Contracts Payable | 5,000 |
| Intergovernmental Payable | 1,586,883 |
| Retainage Payable | 35,788 |
| Long-Term Liabilities: | |
| Due Within One Year | 1,486,453 |
| Due In More Than One Year | 2,126,099 |
| | <hr/> |
| <i>Total Liabilities</i> | 10,663,934 |
| | <hr/> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 4,758,456 |
| Restricted for: | |
| Teacher Development | 11,891 |
| Professional Development | 173,839 |
| Peer Assistance | 318,065 |
| Other Purposes | 17,172 |
| Unrestricted | 23,461,044 |
| | <hr/> |
| <i>Total Net Assets</i> | \$28,740,467 |
| | <hr/> <hr/> |

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2009

| | 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 | \$1,962,341 | \$607,754 | \$1,926,315 | \$571,728 |
| Special | 25,586,953 | 20,683,619 | 112,414 | (4,790,920) |
| Vocational | 313,571 | 261,741 | 40 | (51,790) |
| Adult/Continuing | 18,433 | 0 | 26,079 | 7,646 |
| Support Services: | | | | |
| Pupil | 5,980,393 | 3,689,475 | 1,300,217 | (990,701) |
| Instructional Staff | 15,687,491 | 10,513,453 | 3,650,661 | (1,523,377) |
| Board of Education | 69,436 | 57,951 | 0 | (11,485) |
| Administration | 12,310,760 | 7,271,731 | 0 | (5,039,029) |
| Fiscal | 1,767,458 | 651,388 | 0 | (1,116,070) |
| Business | 102,505 | 34,777 | 0 | (67,728) |
| Operation and Maintenance of Plant | 935,590 | 1,122,072 | 0 | 186,482 |
| Pupil Transportation | 3,074 | 2,569 | 0 | (505) |
| Central | 153,962 | 72,901 | 0 | (81,061) |
| Operation of Non-Instructional Services | 4,711,537 | 448,454 | 7,857,443 | 3,594,360 |
| Extracurricular Activities | 52,582 | 43,936 | 0 | (8,646) |
| Interest and Fiscal Charges | 84,700 | 0 | 0 | (84,700) |
| Totals | \$69,740,786 | \$45,461,821 | \$14,873,169 | (9,405,796) |
| General Revenues | | | | |
| Grants and Entitlements not Restricted to Specific Programs | | | | 6,311,011 |
| Investment Earnings | | | | 389,229 |
| Miscellaneous | | | | 654,113 |
| <i>Total General Revenues</i> | | | | <u>7,354,353</u> |
| Change in Net Assets | | | | (2,051,443) |
| <i>Net Assets Beginning of Year</i> | | | | <u>30,791,910</u> |
| <i>Net Assets End of Year</i> | | | | <u>\$28,740,467</u> |

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

*Balance Sheet
Governmental Funds
June 30, 2009*

| | <u>General</u> | <u>Local Grants</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---------------------|---|---|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$15,670,443 | \$824,932 | \$856,243 | \$17,351,618 |
| Receivables: | | | | |
| Accrued Interest | 66,951 | 0 | 0 | 66,951 |
| Accounts | 524,057 | 0 | 0 | 524,057 |
| Intergovernmental | 10,814,533 | 3,261,447 | 822,339 | 14,898,319 |
| Interfund Receivable | 4,846,900 | 0 | 0 | 4,846,900 |
| <i>Total Assets</i> | <u>\$31,922,884</u> | <u>\$4,086,379</u> | <u>\$1,678,582</u> | <u>\$37,687,845</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$313,502 | \$525,038 | \$244,840 | \$1,083,380 |
| Accrued Wages and Benefits | 4,001,788 | 24,050 | 314,493 | 4,340,331 |
| Contracts Payable | 5,000 | 0 | 0 | 5,000 |
| Intergovernmental Payable | 1,407,361 | 59,085 | 120,437 | 1,586,883 |
| Interfund Payable | 0 | 4,011,300 | 835,600 | 4,846,900 |
| Retainage Payable | 35,788 | 0 | 0 | 35,788 |
| Deferred Revenue | 4,508,274 | 0 | 807,778 | 5,316,052 |
| <i>Total Liabilities</i> | <u>10,271,713</u> | <u>4,619,473</u> | <u>2,323,148</u> | <u>17,214,334</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 575,723 | 115,684 | 386,788 | 1,078,195 |
| Unreserved, Undesignated | | | | |
| Reported in: | | | | |
| General Fund | 21,075,448 | 0 | 0 | 21,075,448 |
| Special Revenue Funds (Deficit) | 0 | (648,778) | (1,031,354) | (1,680,132) |
| <i>Total Fund Balances</i> | <u>21,651,171</u> | <u>(533,094)</u> | <u>(644,566)</u> | <u>20,473,511</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$31,922,884</u> | <u>\$4,086,379</u> | <u>\$1,678,582</u> | <u>\$37,687,845</u> |

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, 2009

| | | |
|--|-------------|--------------|
| Total Governmental Fund Balances | | \$20,473,511 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | | 6,563,456 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | | |
| Tuition and Fees | \$4,081,053 | |
| Charges for Services | 427,221 | |
| Grants | 807,778 | |
| Total | | 5,316,052 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated Absences | (1,807,552) | |
| Capital Lease | (1,805,000) | |
| Total | | (3,612,552) |
| <i>Net Assets of Governmental Activities</i> | | \$28,740,467 |

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, 2009

| | General | Local Grants | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Intergovernmental | \$6,311,011 | \$7,757,563 | \$7,241,975 | \$21,310,549 |
| Interest | 389,229 | 0 | 0 | 389,229 |
| Tuition and Fees | 32,206,035 | 840 | 0 | 32,206,875 |
| Rentals | 447,648 | 0 | 0 | 447,648 |
| Charges for Services | 11,798,896 | 0 | 0 | 11,798,896 |
| Extracurricular Activities | 1,540 | 0 | 0 | 1,540 |
| Contributions and Donations | 3,254 | 0 | 0 | 3,254 |
| Miscellaneous | 650,113 | 4,000 | 0 | 654,113 |
| <i>Total Revenues</i> | <u>51,807,726</u> | <u>7,762,403</u> | <u>7,241,975</u> | <u>66,812,104</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 469,590 | 0 | 1,486,575 | 1,956,165 |
| Special | 24,943,335 | 0 | 495,384 | 25,438,719 |
| Vocational | 304,302 | 0 | 0 | 304,302 |
| Adult/Continuing | 0 | 0 | 18,433 | 18,433 |
| Support Services: | | | | |
| Pupil | 4,449,281 | 464,254 | 1,050,465 | 5,964,000 |
| Instructional Staff | 12,657,811 | 9,395 | 2,974,443 | 15,641,649 |
| Board of Education | 69,436 | 0 | 0 | 69,436 |
| Administration | 9,221,333 | 2,380,604 | 573,787 | 12,175,724 |
| Fiscal | 938,663 | 303,369 | 512,389 | 1,754,421 |
| Business | 40,451 | 3,761 | 0 | 44,212 |
| Operation and Maintenance of Plant | 1,273,129 | 0 | 159,645 | 1,432,774 |
| Pupil Transportation | 3,074 | 0 | 0 | 3,074 |
| Central | 87,246 | 0 | 65,668 | 152,914 |
| Operation of Non-Instructional Services | 0 | 4,160,161 | 525,165 | 4,685,326 |
| Extracurricular Activities | 52,582 | 0 | 0 | 52,582 |
| Debt Service: | | | | |
| Principal Retirement | 68,000 | 0 | 0 | 68,000 |
| Interest and Fiscal Charges | 84,700 | 0 | 0 | 84,700 |
| <i>Total Expenditures</i> | <u>54,662,933</u> | <u>7,321,544</u> | <u>7,861,954</u> | <u>69,846,431</u> |
| <i>Net Change in Fund Balances</i> | (2,855,207) | 440,859 | (619,979) | (3,034,327) |
| <i>Fund Balances (Deficit) Beginning of Year</i> | <u>24,506,378</u> | <u>(973,953)</u> | <u>(24,587)</u> | <u>23,507,838</u> |
| <i>Fund Balances (Deficit) End of Year</i> | <u>\$21,651,171</u> | <u>(\$533,094)</u> | <u>(\$644,566)</u> | <u>\$20,473,511</u> |

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, 2009*

Net Change in Fund Balances - Total Governmental Funds (\$3,034,327)

*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 | \$592,068 | |
| Current Year Depreciation | (311,182) | |
| | | |
| Total | | 280,886 |

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. (9,820)

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

| | | |
|----------------------|-----------|---------|
| Tuition and Fees | 895,079 | |
| Charges for Services | 112,083 | |
| Grants | (129,623) | |
| Rentals | (300) | |
| | | |
| Total | | 877,239 |

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. 68,000

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. (233,421)

Change in Net Assets of Governmental Activities (\$2,051,443)

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2009

| Assets | |
|--|-------------------------|
| Equity in Pooled Cash and Cash Equivalents | \$296,984 |
| Accrued Interest Receivable | 267 |
| Accounts Receivable | 11,917 |
| Intergovernmental Receivable | <u>84,683</u> |
| <i>Total Assets</i> | <u><u>\$393,851</u></u> |
| | |
| Liabilities | |
| Accounts Payable | \$3,830 |
| Intergovernmental Payable | 100,920 |
| Undistributed Monies | <u>289,101</u> |
| <i>Total Liabilities</i> | <u><u>\$393,851</u></u> |

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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 183,000 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 Educational Regional Service System Region 3. 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 the 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.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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.

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2009

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."

During fiscal year 2009, investments were limited to STAROhio. Investments are reported at fair value.

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, 2009.

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 2009 amounted to \$389,229 which includes \$43,627 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.

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2009, 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:

| <u>Description</u> | <u>Estimated Lives</u> |
|-------------------------|------------------------|
| 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

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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 and LEP/Immigrant Title III 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

Transfers between governmental activities are eliminated on the government-wide financial statements. Internal events that are 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.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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 fiscal year 2009, the Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effect of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of this statement did not result in any change to the School District's financial statements.

GASB Statement No. 52 establishes standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. The implementation of this statement did not result in any change to the School District's financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The implementation of this statement did not result in any change to the School District's financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' and auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The statement's guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any change to the School District's financial statements.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

Note 4 – Fund Deficits

At June 30, 2009, the Local Grants, Teacher Development, Alternative Schools, Peer Assistance, Title VI-B, Title I, Preschool Disabilities and Miscellaneous Federal Grants special revenue funds had fund deficits of \$533,094, \$33,775, \$347, \$53,188, \$465,847, \$12,040, \$970 and \$256,054, 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);

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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, \$20,306,886 of the Service Center's bank balance of \$20,886,056 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 credit 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, 2009, the Service Center had an investment with STAROhio. The fair value of this investment was \$90,707 and had an average maturity of 58.1 days.

Credit Risk STAROhio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Service Center has no investment policy that would further limit its investment choices.

Note 6 – 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 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

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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 7 – Receivables

Receivables at June 30, 2009, 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 | <u>Amounts</u> |
|---|----------------------------|
| Positive Education Program | \$10,814,533 |
| Help Me Grow Grant Subsidy | 3,215,927 |
| Miscellaneous Federal Grant Subsidy | 189,688 |
| Peer Assistance Grant Subsidy | 394,969 |
| Title VI-B Grant Subsidy | 176,000 |
| SST - Literacy Grant Subsidy | 45,666 |
| Early Learning and Literacy Grant Subsidy | 45,520 |
| Praxis III Grant Subsidy | 13,480 |
| Title I Grant Subsidy | 1,700 |
| Alternative Schools Grant Subsidy | 723 |
| Preschool Disabilities Grant Subsidy | 113 |
| Total | <u><u>\$14,898,319</u></u> |

Note 8 – 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2009.

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

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2009.

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

| | Balance 6/30/08 | Additions | Deletions | Balance 6/30/09 |
|--|--------------------|-------------|-------------|--------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$536,778 | \$0 | \$0 | \$536,778 |
| Construction in Progress | 77,199 | 388,514 | (465,713) | 0 |
| <i>Total Capital Assets, not being depreciated</i> | 613,977 | 388,514 | (465,713) | 536,778 |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Buildings and Improvements | 5,569,470 | 532,576 | 0 | 6,102,046 |
| Furniture and Equipment | 948,101 | 136,691 | (54,325) | 1,030,467 |
| Vehicles | 28,882 | 0 | 0 | 28,882 |
| <i>Total Capital Assets, being depreciated</i> | 6,546,453 | 669,267 | (54,325) | 7,161,395 |
| Less Accumulated Depreciation | | | | |
| Buildings and Improvements | (475,550) | (195,221) | 0 | (670,771) |
| Furniture and Equipment | (371,429) | (108,741) | 44,505 | (435,665) |
| Vehicles | (21,061) | (7,220) | 0 | (28,281) |
| <i>Total Accumulated Depreciation</i> | (868,040) | (311,182) * | 44,505 | (1,134,717) |
| Total Capital Assets, being depreciated, net | 5,678,413 | 358,085 | (9,820) | 6,026,678 |
| Governmental Activities Capital Assets, Net | \$6,292,390 | \$746,599 | (\$475,533) | \$6,563,456 |

* Depreciation expense was charged to governmental functions as follows:

| | |
|-----------------------------------|------------------|
| Instruction: | |
| Regular | \$24,529 |
| Special | 16,168 |
| Support Services: | |
| Pupils | 5,727 |
| Instructional Staff | 25,715 |
| Administration | 216,869 |
| Fiscal | 21,125 |
| Central | 1,049 |
| Total Depreciation Expense | \$311,182 |

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

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 2009, 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 | 6,097,263 |
| 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 Service Center 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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2009

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 Service Center is required to contribute at an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2009, 9.09 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, 2009, 2008 and 2007 were \$1,760,184, \$1,724,298 and \$1,850,398 respectively; 92.84 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System

Plan Description - The Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement 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, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2008, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2009

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, 2009, 2008, and 2007 were \$2,898,026, \$2,736,288 and \$2,608,665 respectively; 89.74 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008, and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$63,991 made by the School District and \$110,354 made by the plan members.

Note 12 – Postemployment Benefits

A. School Employee Retirement System

Plan Description – The Service Center 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 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, this amount was \$35,800. During fiscal year 2009 the Service Center paid \$301,200 in surcharge.

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

The Service Center's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$1,103,920, \$1,084,672 and \$906,312 respectively; 92.84 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.75 percent of covered payroll. The Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$145,230, \$124,240 and \$125,827 respectively; 92.84 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

B. State Teachers Retirement System

Plan Description – The Service Center 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 2009, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The Service Center's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$222,925, \$210,484 and \$200,667 respectively; 92.84 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

Note 14 – Long-Term Obligations

The changes in the Service Center’s long-term obligations during fiscal year 2009 were as follows:

| | Outstanding June 30, 2008 | Additions | Deductions | Outstanding June 30, 2009 | Due Within One Year |
|----------------------|------------------------------|--------------------|------------------|------------------------------|------------------------|
| Capital Lease | \$1,873,000 | \$0 | \$68,000 | \$1,805,000 | \$71,000 |
| Compensated Absences | 1,574,131 | 1,115,731 | 882,310 | 1,807,552 | 1,415,453 |
| Total | \$3,447,131 | \$1,115,731 | \$950,310 | \$3,612,552 | \$1,486,453 |

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 | (240,000) |
| Total Book Value as of June 30, 2009 | \$1,760,000 |

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, 2009.

| | Governmental Activities |
|---|----------------------------|
| 2010 | \$152,477 |
| 2011 | 153,090 |
| 2012 | 152,544 |
| 2013 | 152,832 |
| 2014 | 152,936 |
| 2015-2019 | 763,524 |
| 2020-2024 | 766,255 |
| 2025-2026 | 305,571 |
| Total Minimum Lease Payments | 2,599,229 |
| Less: Amounts Representing Interest | (794,229) |
| Present Value of Minimum Lease Payments | \$1,805,000 |

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

Note 16 – Jointly Governed Organizations

A. Lakeshore Northeast Ohio Computer Association (LNOCA)

LNOCA is a jointly governed organization among fifteen 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 2009 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 2009.

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 2009.

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.

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

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 2009.

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 – Interfund Transactions

Interfund balances at June 30, 2009, consist of the following individual fund receivables and payables:

| <u>Interfund Payable</u> | <u>Interfund Receivable</u> |
|--------------------------------------|-----------------------------|
| | <u>General Fund</u> |
| <i>Governmental Activities</i> | |
| Local Grants | \$4,011,300 |
| Non-Major Funds | |
| Teacher Development | 31,500 |
| Professional Development | 2,700 |
| Alternative Schools | 450 |
| Peer Assistance | 163,800 |
| Title VI-B | 176,000 |
| Title I | 1,700 |
| Preschool Disabilities | 1,650 |
| Miscellaneous Federal Grant | 457,800 |
| <i>Total Governmental Activities</i> | <u><u>\$4,846,900</u></u> |

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

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, 2009

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$6,057,888 | \$6,311,011 | \$6,311,011 | \$0 |
| Interest | 402,854 | 404,910 | 404,910 | 0 |
| Tuition and Fees | 41,365,168 | 32,195,891 | 32,195,891 | 0 |
| Rentals | 442,917 | 445,178 | 445,178 | 0 |
| Charges for Services | 9,553,287 | 11,725,447 | 11,725,447 | 0 |
| Extracurricular Activities | 0 | 1,540 | 1,540 | 0 |
| Contributions and Donations | 3,237 | 3,254 | 3,254 | 0 |
| Miscellaneous | 1,116,187 | 650,113 | 650,113 | 0 |
| <i>Total Revenues</i> | <u>58,941,538</u> | <u>51,737,344</u> | <u>51,737,344</u> | <u>0</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 492,516 | 477,797 | 477,797 | 0 |
| Special | 26,403,967 | 24,695,918 | 24,695,918 | 0 |
| Vocational | 299,412 | 279,944 | 279,944 | 0 |
| Support Services: | | | | |
| Pupil | 4,667,923 | 4,378,901 | 4,378,901 | 0 |
| Instructional Staff | 13,237,142 | 12,378,651 | 12,378,651 | 0 |
| Board of Education | 72,891 | 68,757 | 68,757 | 0 |
| Administration | 9,430,687 | 9,448,702 | 9,448,702 | 0 |
| Fiscal | 818,640 | 1,015,134 | 1,015,134 | 0 |
| Business | 42,017 | 39,285 | 39,285 | 0 |
| Operation and Maintenance of Plant | 1,426,208 | 1,424,647 | 1,424,647 | 0 |
| Pupil Transportation | 2,913 | 2,724 | 2,724 | 0 |
| Central | 91,466 | 85,519 | 85,519 | 0 |
| Extracurricular Activities | 47,109 | 44,277 | 44,277 | 0 |
| Debt Service: | | | | |
| Principal Retirement | 68,000 | 68,000 | 68,000 | 0 |
| Interest and Fiscal Charges | 84,700 | 84,700 | 84,700 | 0 |
| <i>Total Expenditures</i> | <u>57,185,591</u> | <u>54,492,956</u> | <u>54,492,956</u> | <u>0</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>1,755,947</u> | <u>(2,755,612)</u> | <u>(2,755,612)</u> | <u>0</u> |
| Other Financing Sources (Uses) | | | | |
| Advances In | 5,304,800 | 5,083,000 | 5,083,000 | 0 |
| Advances Out | (5,183,963) | (4,846,900) | (4,846,900) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>120,837</u> | <u>236,100</u> | <u>236,100</u> | <u>0</u> |
| <i>Net Change in Fund Balance</i> | <u>1,876,784</u> | <u>(2,519,512)</u> | <u>(2,519,512)</u> | <u>0</u> |
| <i>Fund Balance Beginning of Year</i> | <u>16,155,137</u> | <u>16,155,137</u> | <u>16,155,137</u> | <u>0</u> |
| Prior Year Encumbrances Appropriated | <u>524,344</u> | <u>524,344</u> | <u>524,344</u> | <u>0</u> |
| <i>Fund Balance End of Year</i> | <u>\$18,556,265</u> | <u>\$14,159,969</u> | <u>\$14,159,969</u> | <u>\$0</u> |

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, 2009

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|--|--------------------|--------------------|--------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Intergovernmental | \$10,590,354 | \$9,050,052 | \$9,050,052 | \$0 |
| Tuition and Fees | 0 | 840 | 840 | 0 |
| Miscellaneous | 0 | 4,000 | 4,000 | 0 |
| <i>Total Revenues</i> | <u>10,590,354</u> | <u>9,054,892</u> | <u>9,054,892</u> | <u>0</u> |
| Expenditures | | | | |
| Current: | | | | |
| Support Services: | | | | |
| Pupil | 563,073 | 534,305 | 534,305 | 0 |
| Instructional Staff | 14,600 | 12,740 | 12,740 | 0 |
| Administration | 3,247,318 | 2,444,627 | 2,444,627 | 0 |
| Fiscal | 537,982 | 530,684 | 530,684 | 0 |
| Operation of Non-Instructional Services | 8,319,902 | 8,214,709 | 8,214,709 | 0 |
| <i>Total Expenditures</i> | <u>12,682,875</u> | <u>11,737,065</u> | <u>11,737,065</u> | <u>0</u> |
| <i>Excess of Revenues Under Expenditures</i> | <u>(2,092,521)</u> | <u>(2,682,173)</u> | <u>(2,682,173)</u> | <u>0</u> |
| Other Financing Sources (Uses) | | | | |
| Advances In | 4,011,300 | 4,011,300 | 4,011,300 | 0 |
| Advances Out | (3,301,846) | (4,360,000) | (4,360,000) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>709,454</u> | <u>(348,700)</u> | <u>(348,700)</u> | <u>0</u> |
| <i>Net Change in Fund Balance</i> | <u>(1,383,067)</u> | <u>(3,030,873)</u> | <u>(3,030,873)</u> | <u>0</u> |
| <i>Fund Balance Beginning of Year</i> | 61,747 | 61,747 | 61,747 | 0 |
| Prior Year Encumbrances Appropriated | 3,164,432 | 3,164,432 | 3,164,432 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$1,843,112</u> | <u>\$195,306</u> | <u>\$195,306</u> | <u>\$0</u> |

See accompanying notes to the supplemental information

Cuyahoga County Educational Service Center

*Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2009*

Note 1 – Budgetary Basis of Accounting

A. Budgetary Process

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

The 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).

Cuyahoga County Educational Service Center

*Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2009*

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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

| | <u>General</u> | <u>Local Grants</u> |
|---|-----------------------------|-----------------------------|
| GAAP Basis | (\$2,855,207) | \$440,859 |
| Net Adjustment for Revenue Accruals | 970,568 | 1,336,350 |
| Beginning Unrecorded Cash | (556,080) | (25,084) |
| Ending Unrecorded Cash | (484,870) | (18,777) |
| Advance In | 5,083,000 | 4,011,300 |
| Net Adjustment for Expenditure Accruals | 1,195,581 | (3,804,672) |
| Advance Out | (4,846,900) | (4,360,000) |
| Adjustment for Encumbrances | <u>(1,025,604)</u> | <u>(610,849)</u> |
| Budget Basis | <u><u>(\$2,519,512)</u></u> | <u><u>(\$3,030,873)</u></u> |

**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, 2009, which collectively comprise the Service Center’s basic financial statements and have issued our report thereon dated March 4, 2010, wherein we noted the Service Center implemented GASB Statement Nos. 49, 52, 55, and 56, 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: 2009-1.

Governing Board
Cuyahoga County Educational Service Center

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.

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 2009-1 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 March 4, 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.

Cini & Panichi, Inc.

Cleveland, Ohio
March 4, 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, 2009. 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 2009-2 and 2009-3 in the accompanying schedule of findings, the Service Center did not comply with requirements regarding Cash Management that are applicable to its Special Education Cluster grants and Subrecipient Monitoring that is applicable to the Nutrition Cluster 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, 2009.

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 2009-2 and 2009-3 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 2009-2 and 2009-3 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, 2009, and have issued our report thereon dated March 4, 2010, wherein we noted the Service Center implemented GASB Statement Nos. 49, 52, 55, and 56 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
March 4, 2010

Cuyahoga County Educational Service Center, Ohio

Schedule of Expenditures of Federal Awards

For The Year Ended June 30, 2009

| 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 | \$ 118,621 | \$ 118,621 |
| National School Lunch Program | 10.555 | <u>198,092</u> | <u>198,092</u> |
| Total U.S. Department of Agriculture | | <u>316,713</u> | <u>316,713</u> |
| U.S. Department of Education: | | | |
| Special Education-Parent Information Centers | 84.328 | 41,515 | 32,032 |
| Fund for the Improvement of Education Teaching American History | 84.215X | 356,663 | 551,905 |
| Passed-Through Ohio Department of Education: | | | |
| Title I – Grants in Local Educational Agency | 84.010 | 8,785 | 20,583 |
| | 84.010 | <u>81,524</u> | <u>77,940</u> |
| Total Title I | | <u>90,309</u> | <u>98,523</u> |
| Special Education Cluster: | | | |
| Special Education-Grants to States (IDEA Part B) | 84.027 | 441,271 | 731,621 |
| | 84.027 | 58,209 | 122,617 |
| | 84.027 | 413,772 | 470,595 |
| | 84.027 | <u>1,469,814</u> | <u>1,557,924</u> |
| Total Special Part B | | <u>2,383,066</u> | <u>2,882,757</u> |
| Special Education-Preschool Grants | 84.173 | - | 374 |
| | 84.173 | 3,000 | 3,000 |
| | 84.173 | 13,604 | 15,217 |
| | 84.173 | 300 | 300 |
| | 84.173 | <u>6,500</u> | <u>5,870</u> |
| Total Special Preschool | | <u>23,404</u> | <u>24,761</u> |
| Total Special Education Cluster | | <u>2,406,470</u> | <u>2,907,519</u> |
| Special Education-State Personnel Development | 84.323 | 38,296 | 20,958 |
| School Improvement Grant | 84.377 | 3,000 | 3,435 |
| Passed-Through Ohio Department of Health: | | | |
| English Language Acquisition Grant | 84.365 | - | 2,895 |
| | 84.365 | <u>74,509</u> | <u>70,551</u> |
| Total English Language | | <u>74,509</u> | <u>73,446</u> |
| Total U. S. Department of Education | | <u>3,010,762</u> | <u>3,687,817</u> |
| U.S. Department of Health and Human Services: | | | |
| Refugee and Entrant Assistance Grant | 93.576 | <u>26,024</u> | <u>26,713</u> |
| Total Expenditures of Federal Awards | | <u>\$ 3,353,499</u> | <u>\$ 4,031,243</u> |

The accompanying notes are an integral part of this schedule.

Cuyahoga County Educational Service Center, Ohio

Notes to the Schedule of Expenditures of Federal Awards

For The Year Ended June 30, 2009

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, 2009

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 |
| (d)(I)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$300,000 Type B: All Others |
| (d)(I)(ix) | Low Risk Auditee? | No |

Cuyahoga County Educational Service Center

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

June 30, 2009

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

| Findings | Findings Summary |
|----------|--|
| 2009-1 | <p><i>Financial Reporting – Significant Deficiency / Material Weakness</i></p> <p>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.</p> <p>The following audit adjustments were made to the financial statements:</p> <ol style="list-style-type: none"> 1. Adjusted the accounts payable for an understatement of the amount originally recorded. 2. Adjusted deferred revenue for amounts received within the available period. <p>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.</p> <p>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.</p> <p>Official’s Response: Management will develop a process to oversee the GAAP conversion process more closely and have better communication with them.</p> |

Cuyahoga County Educational Service Center

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

June 30, 2009

3. Findings for Federal Awards

| Findings | Findings Summary |
|----------|---|
| 2009-2 | <p><i>Cash Management – Significant Deficiency / Material Weakness</i></p> <p>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.</p> <p>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.</p> <p>Official’s Response:</p> <p>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.</p> |
| 2009-3 | <p><i>Subrecipient Monitoring – Significant Deficiency / Material Weakness</i></p> <p>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 subrecipient’s Single Audit reports and evaluate any audit findings.</p> <p>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.</p> <p>Official’s Response:</p> <p>Procedures will be implemented to ensure that subrecipient monitoring is performed.</p> |

Cuyahoga County Educational Service Center

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

June 30, 2009

| Finding Number | Finding Summary | Fully Corrected? | Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain |
|-----------------------|---|-------------------------|--|
| 2008-1 | The following audit adjustments were made to the financial statements: Adjusted the General Fund and Special Education Fund for Special Education expenditures incorrectly coded to the General Fund; adjusted for understatement of grants receivable; adjusted for understatement of accounts payable; adjusted for improper recording of capital asset additions; Adjusted deferred revenue for amounts received within the available period; and adjusted prepaids to actual. | No | Partially corrected – the number of audit adjustments was reduced. See Finding 2009-1. |
| 2008-2 | 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 2009-2. |
| 2008-3 | Final expenditure report was submitted subsequent to the deadline as noted in the Grant Agreement. | Yes | Corrected. |
| 2008-4 | Special Education Cluster grant expenditures were incorrectly recorded in the General Fund at year-end, resulting in an adjustment to the schedule of federal expenditures. | Yes | Corrected. |
| 2008-5 | No subrecipient monitoring of the Nutrition Cluster Grant is being performed by the Service Center. | No | Not corrected. See Finding 2009-3. |



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**