



**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors
Cuyahoga County Educational Service Center
Cuyahoga County
5811 Canal Road
Valley View, Ohio 44125-3300

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Cuyahoga County Educational Service Center, Cuyahoga County, Ohio (the Service Center), as of and for the year ended June 30, 2004, 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 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, the major fund and the aggregate remaining fund information of the Cuyahoga County Educational Service Center, Cuyahoga County, Ohio, as of June 30, 2004, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2005, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the Service Center's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

February 1, 2005

Cuyahoga County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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, 2004. 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 notes to the basic financial statements and financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for 2004 include:

- Total assets increased by \$2,592,634, offset by a \$2,166,293 increase in liabilities. This resulted in an overall increase in net assets of \$426,341.
- Total revenues of \$59,716,849 were comprised of general revenues in the amount of \$2,303,249 and program specific revenues from charges for services and grants and contributions in the amount of \$57,413,600.
- Total revenues increased by \$5,113,294, or 9.36 percent, over fiscal year 2003. This included a \$6,208,827 increase in program revenues and a \$1,095,533 decrease in general revenues.
- Total program expenses increased \$4,569,146, or 8.35 percent, over fiscal year 2003.
- Total cost of services increased \$4,569,146, or 8.35 percent over fiscal year 2003, and net cost of services decreased \$1,639,681 over fiscal year 2003.
- Total capital assets increased \$2,285,896 over fiscal year 2003, mainly due to the purchase of the new office buildings.

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 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 is the most significant fund.

Cuyahoga County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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.

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

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major fund begins on page 8. Fund financial reports provide detailed information about the Service Center's major fund. 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 fund is the general 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, 2004
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 2004 compared to 2003:

(Table 1)
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$23,598,557	\$23,291,819
Capital Assets, Net	2,481,876	195,980
<i>Total Assets</i>	<u>26,080,433</u>	<u>23,487,799</u>
Liabilities		
Current and Other Liabilities	6,307,023	4,410,802
Long-Term Liabilities:		
Due Within One Year	856,449	650,195
Due in More than One Year	336,571	272,753
<i>Total Liabilities</i>	<u>7,500,043</u>	<u>5,333,750</u>
Net Assets		
Invested in Capital Assets	2,481,876	195,980
Restricted	711,342	981,487
Unrestricted	15,387,172	16,976,582
<i>Total Net Assets</i>	<u>\$18,580,390</u>	<u>\$18,154,049</u>

Total assets increased mainly due to the additional current and delinquent collections of tuition and fees and customer service charges, along with a major increase in grant funding, all which affected intergovernmental receivable. The Service Center also purchased two buildings and the land they sit on for their offices and service centers. Liabilities increased as a result of an increase in accrued wages of \$1,536,204, due to pay raises and additional staffing and an increase in intergovernmental payable of \$354,622 due mainly to an outstanding payment for services provided by the Cuyahoga County Health Board.

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

Table 2 shows the change in net assets for fiscal year 2004 as compared to fiscal year 2003.

(Table 2)
Change in Net Assets
Governmental Activities

	2004	2003
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$48,260,149	\$43,680,313
Operating Grants and Contributions	9,153,451	7,524,460
<i>Total Program Revenues</i>	<u>57,413,600</u>	<u>51,204,773</u>
<i>General Revenues:</i>		
Grants and Entitlements	2,072,784	2,775,513
Interest	171,477	272,850
Miscellaneous	58,988	350,419
<i>Total General Revenues</i>	<u>2,303,249</u>	<u>3,398,782</u>
Total Revenues	<u>59,716,849</u>	<u>54,603,555</u>
Program Expenses		
Instruction	24,268,765	21,033,458
<i>Support Services:</i>		
Pupil and Instructional Staff	21,019,399	17,490,056
Board of Education, Administration, Fiscal and Business	9,484,801	11,382,089
Operation and Maintenance of Plant	308,165	450,865
Pupil Transportation	6,190	1,328
Central	45,757	156,987
Operation of Noninstructional Services	4,154,412	4,204,636
Extracurricular Activities	3,019	1,943
<i>Total Program Expenses</i>	<u>59,290,508</u>	<u>54,721,362</u>
Increase (Decrease) in Net Assets	426,341	(117,807)
<i>Net Assets Beginning of Year</i>	<u>18,154,049</u>	<u>18,271,856</u>
<i>Net Assets End of Year</i>	<u><u>\$18,580,390</u></u>	<u><u>\$18,154,049</u></u>

Program revenues increased by \$6,208,827 due to a \$2,000,000 increase in Positive Education Program receipts, \$700,000 school improvement facilitator grants, an increase in costs for tuition and service fees and an increase in the number of students served during the year.

Cuyahoga County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

General revenues decreased by \$1,095,533 due to less city/county revenues received, combined with less interest and miscellaneous revenues received. Program expenses increased by \$4,569,146 due to pay raises and additional staffing and increased services due to new grant monies.

Governmental Activities

A review of Table 2 reinforces the concept of sound fiscal management in the government sector reflecting revenues received relatively consistent with expenses incurred to operate. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same.

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 show the total cost of services and the net cost of services. The \$1,876,908 *Net Cost of Services 2004* tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements and the unrestricted net assets.

(Table 3)
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Instruction	\$24,268,765	\$3,376,519	\$21,033,458	(\$426,949)
Support Services:				
Pupil and Instructional Staff	21,019,399	(6,454,914)	17,490,056	(1,538,811)
Board of Education, Administration, Fiscal and Business	9,484,801	(36,641)	11,382,089	(1,682,867)
Operation and Maintenance of Plant	308,165	389,828	450,865	68,710
Pupil Transportation	6,190	19,110	1,328	(1,328)
Central	45,757	39,183	156,987	(62,997)
Operation of Non-Instructional Services	4,154,412	793,026	4,204,636	127,181
Extracurricular Activities	3,019	(3,019)	1,943	472
<i>Totals</i>	<u>\$59,290,508</u>	<u>(\$1,876,908)</u>	<u>\$54,721,362</u>	<u>(\$3,516,589)</u>

The Service Center's Funds

Information about the Service Center's major fund starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$60,681,105 and total expenditures of \$61,038,781.

The net change in fund balance for the year was most significant in "general fund" with a decrease of \$736,802. The net result is a decrease of \$357,676 resulting from the timing of revenues received in the available period as compared to revenues received in the available period in prior fiscal year.

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

General Fund Budgeting Highlights

The Service Center's budget is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The budgetary process that is followed is for control purposes. The most significant budgeted fund is the general fund.

During the course of fiscal 2004, the Service Center amended its general fund budget numerous times. Many of the amendments are due to changes in program attendance, client-district needs and capital improvement decisions. The general fund is often called upon to advance funds to one project or another. During the course of the fiscal year several federal and state grants will surface or material changes in existing ones will require budgetary action.

For the general fund, final budget basis revenue estimate was \$46,774,957; this was above the original budget estimates of \$45,180,197. The main difference between the original and final estimates was due to an increase in charges for services and tuition and fees used to fund an increase in the various services provided to the participating school districts. The final budget basis expenditures estimate totaled \$52,567,638; this was above the original budget estimates of \$50,922,660. The increase in expenditures was a result of increased services provided to the participating school districts and increased staff wages and benefits.

Capital Assets

During the fiscal year, the Service Center purchased two office buildings, land, copiers and computers. At the end of fiscal 2004 the Service Center had \$2,481,876 invested in land, buildings and improvements and furniture and equipment. Table 4 shows fiscal 2004 balances compared to fiscal year 2003. More detailed information is presented in Note 10 of the notes to the basic financial statements.

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

	Governmental Activities	
	2004	2003
Land	\$390,975	\$0
Buildings and Improvements	1,919,458	0
Furniture and Equipment	171,443	195,980
<i>Total Capital Assets</i>	<u>\$2,481,876</u>	<u>\$195,980</u>

Cuyahoga County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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.

The Service Center has purchased an office building located on Canal Road, near the previous location, to enable them to expand its services and have more room to meet the needs of its clients.

While many outside factors can and will effect the economy, the Service Center is committed to provide the best services possible and to be fiscally responsible now and in future years.

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 Kevin Staller, Treasurer at The Service Center, 5811 Canal Road, Valley View, Ohio, 44125; or by email at kevin.staller@inoca.org.

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Cuyahoga County Educational Service Center

Statement of Net Assets

June 30, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$10,381,430
Accrued Interest Receivable	16,666
Accounts Receivable	154,802
Intergovernmental Receivable	12,625,668
Prepaid Items	419,991
Nondepreciable Capital Assets	390,975
Depreciable Capital Assets, Net	2,090,901
	<hr/>
<i>Total Assets</i>	26,080,433
	<hr/>
Liabilities	
Accounts Payable	269,325
Accrued Wages and Benefits	4,689,560
Intergovernmental Payable	1,348,138
Long-Term Liabilities:	
Due Within One Year	856,449
Due In More Than One Year	336,571
	<hr/>
<i>Total Liabilities</i>	7,500,043
	<hr/>
Net Assets	
Invested in Capital Assets	2,481,876
Restricted for:	
Professional Development	302,504
School Net	76,140
Alternative Schools	43,862
Peer Assistance	50,286
Miscellaneous Federal Grants	161,386
Other Purposes	77,164
Unrestricted	15,387,172
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<i>Total Net Assets</i>	\$18,580,390
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See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities				
Instruction:				
Regular	\$2,134,062	\$539,500	\$1,330,409	(\$264,153)
Special	21,478,374	24,785,703	407,061	3,714,390
Vocational	221,865	182,701	0	(39,164)
Adult/Continuing	434,464	0	399,910	(34,554)
Support Services:				
Pupil	7,631,847	3,216,382	2,564,360	(1,851,105)
Instructional Staff	13,387,552	8,416,799	366,944	(4,603,809)
Board of Education	57,025	0	0	(57,025)
Administration	8,540,847	6,495,434	2,168,103	122,690
Fiscal	885,620	621,538	163,085	(100,997)
Business	1,309	0	0	(1,309)
Operation and Maintenance of Plant	308,165	427,169	270,824	389,828
Pupil Transportation	6,190	0	25,300	19,110
Central	45,757	9,532	75,408	39,183
Operation of Non-Instructional Services	4,154,412	3,565,391	1,382,047	793,026
Extracurricular Activities	3,019	0	0	(3,019)
<i>Totals</i>	<u>\$59,290,508</u>	<u>\$48,260,149</u>	<u>\$9,153,451</u>	<u>(1,876,908)</u>
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				2,072,784
Investment Earnings				171,477
Miscellaneous				58,988
<i>Total General Revenues</i>				<u>2,303,249</u>
Change in Net Assets				426,341
<i>Net Assets Beginning of Year</i>				<u>18,154,049</u>
<i>Net Assets End of Year</i>				<u>\$18,580,390</u>

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$8,777,659	\$1,603,771	\$10,381,430
Receivables:			
Accrued Interest	16,666	0	16,666
Accounts	38,338	116,464	154,802
Intergovernmental	12,329,862	295,806	12,625,668
Interfund Receivable	887,000	0	887,000
Prepaid Items	393,822	26,169	419,991
<i>Total Assets</i>	<u>\$22,443,347</u>	<u>\$2,042,210</u>	<u>\$24,485,557</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$122,405	\$146,920	\$269,325
Accrued Wages and Benefits	4,002,651	686,909	4,689,560
Intergovernmental Payable	908,243	6,308	914,551
Interfund Payable	0	887,000	887,000
Deferred Revenue	2,899,998	229,603	3,129,601
<i>Total Liabilities</i>	<u>7,933,297</u>	<u>1,956,740</u>	<u>9,890,037</u>
 Fund Balances (Deficit)			
Reserved for Encumbrances	317,420	284,829	602,249
Unreserved, Undesignated			
Reported in:			
General Fund	14,192,630	0	14,192,630
Special Revenue Funds (Deficit)	0	(199,359)	(199,359)
<i>Total Fund Balances</i>	<u>14,510,050</u>	<u>85,470</u>	<u>14,595,520</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$22,443,347</u>	<u>\$2,042,210</u>	<u>\$24,485,557</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, 2004

Total Governmental Fund Balances	\$14,595,520
 <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	2,481,876
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Tuition and Fees	2,769,022
Charges for Services	130,359
Grants	229,603
Miscellaneous	617
Total	3,129,601
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(433,587)
Long-term compensated absences liabilities are not due and payable in the current period and therefore are not reported in the funds.	(1,193,020)
<i>Net Assets of Governmental Activities</i>	\$18,580,390

Cuyahoga County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	\$3,103,476	\$8,309,529	\$11,413,005
Interest	171,477	0	171,477
Tuition and Fees	34,078,454	0	34,078,454
Rentals	218,696	0	218,696
Contributions and Donations	2,897	0	2,897
Charges for Services	14,602,083	118,864	14,720,947
Miscellaneous	75,629	0	75,629
<i>Total Revenues</i>	<u>52,252,712</u>	<u>8,428,393</u>	<u>60,681,105</u>
Expenditures			
Current:			
Instruction:			
Regular	794,298	1,323,422	2,117,720
Special	21,249,435	68,677	21,318,112
Vocational	217,468	0	217,468
Adult/Continuing	0	434,471	434,471
Support Services:			
Pupil	5,580,332	2,044,774	7,625,106
Instructional Staff	11,017,633	235,554	11,253,187
Board of Education	57,030	0	57,030
Administration	7,658,428	2,440,214	10,098,642
Fiscal	471,664	204,522	676,186
Business	1,309	0	1,309
Operation and Maintenance of Plant	306,574	247,311	553,885
Pupil Transportation	3,509	2,681	6,190
Central	13,910	31,847	45,757
Operation of Non-Instructional Services	3,077,143	1,015,794	4,092,937
Extracurricular Activities	3,019	0	3,019
Capital Outlay	2,537,762	0	2,537,762
<i>Total Expenditures</i>	<u>52,989,514</u>	<u>8,049,267</u>	<u>61,038,781</u>
<i>Net Change in Fund Balances</i>	(736,802)	379,126	(357,676)
<i>Fund Balances (Deficit)</i>			
<i>Beginning of Year</i>	<u>15,246,852</u>	<u>(293,656)</u>	<u>14,953,196</u>
<i>Fund Balances End of Year</i>	<u>\$14,510,050</u>	<u>\$85,470</u>	<u>\$14,595,520</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, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$357,676)

*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	2,548,388	
Current Year Depreciation	(254,536)	
Total		2,293,852

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. (7,956)

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

Tuition and Fees	(734,040)	
Charges for Services	(23,908)	
Grants	(189,667)	
Miscellaneous	(16,641)	
Total		(964,256)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(270,072)	
Pension Obligation	(267,551)	
Total		(537,623)

Change in Net Assets of Governmental Activities \$426,341

Cuyahoga County Educational Service Center
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$2,862,020	\$3,106,461	\$3,106,461	\$0
Interest	188,974	195,657	195,657	0
Tuition and Fees	28,063,601	29,056,117	29,056,117	0
Rentals	211,226	218,696	218,696	0
Contributions and Donations	2,798	2,897	2,897	0
Charges for Services	13,693,664	14,034,743	14,034,743	0
Miscellaneous	157,914	160,386	160,386	0
<i>Total Revenues</i>	<u>45,180,197</u>	<u>46,774,957</u>	<u>46,774,957</u>	<u>0</u>
Expenditures				
Current:				
Instruction:				
Regular	772,000	777,205	777,205	0
Special	20,886,645	21,150,882	21,150,882	0
Vocational	207,000	208,083	208,083	0
Support Services:				
Pupil	5,199,398	5,663,989	5,663,989	0
Instructional Staff	10,073,523	10,640,790	10,640,790	0
Board of Education	57,000	59,012	59,012	0
Administration	7,332,608	7,621,128	7,621,128	0
Fiscal	389,851	399,575	399,575	0
Business	1,200	1,309	1,309	0
Operation and Maintenance of Plant	291,235	296,567	296,567	0
Pupil Transportation	700	755	755	0
Central	21,000	21,684	21,684	0
Operation of Non-Instructional Services	3,146,000	3,151,824	3,151,824	0
Extracurricular Activities	3,000	3,262	3,262	0
Capital Outlay	2,541,500	2,571,572	2,571,572	0
<i>Total Expenditures</i>	<u>50,922,660</u>	<u>52,567,637</u>	<u>52,567,637</u>	<u>0</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(5,742,463)</u>	<u>(5,792,680)</u>	<u>(5,792,680)</u>	<u>0</u>
Other Financing Sources (Uses)				
Advances In	5,418,481	1,267,000	1,267,000	0
Advances Out	(900,000)	(887,000)	(887,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>4,518,481</u>	<u>380,000</u>	<u>380,000</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(1,223,982)	(5,412,680)	(5,412,680)	0
<i>Fund Balance Beginning of Year</i>	11,677,466	11,677,466	11,677,466	0
Prior Year Encumbrances Appropriated	1,811,122	1,811,122	1,811,122	0
<i>Fund Balance End of Year</i>	<u>\$12,264,606</u>	<u>\$8,075,908</u>	<u>\$8,075,908</u>	<u>\$0</u>

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	<u>Investment Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$2,032,614	\$495,001
Cash and Cash Equivalents in Segregated Accounts	11,672	0
Investments in Segregated Accounts	69,084	0
Accounts Receivable	0	36,792
Accrued Interest	3,943	0
	<hr/>	<hr/>
<i>Total Assets</i>	2,117,313	\$531,793
	<hr/>	<hr/>
Liabilities		
Accounts Payable	0	\$37,635
Accrued Wages and Benefits	0	0
Intergovernmental Payable	0	469,292
Compensated Absences	0	24,866
	<hr/>	<hr/>
<i>Total Liabilities</i>	0	\$531,793
	<hr/>	<hr/>
Net Assets		
Held in Trust for Pool Participants	2,036,557	
Held for Individual Investment Account	80,756	
	<hr/>	
<i>Total Net Assets</i>	\$2,117,313	
	<hr/>	

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Statement of Changes in Fiduciary Net Assets

Fiduciary Fund

For the Fiscal Year Ended June 30, 2004

	<u>Investment Trust</u>
Additions	
Interest	\$24,745
Capital Transactions - Purchases	<u>118,100</u>
<i>Total Additions</i>	<u>142,845</u>
Deductions	
Distributions to Participants	26,704
Capital Transactions	<u>639,853</u>
<i>Total Deductions</i>	<u>666,557</u>
<i>Change in Net Assets</i>	(523,712)
<i>Net Assets Beginning of Year</i>	<u>2,641,025</u>
<i>Net Assets End of Year</i>	<u><u>\$2,117,313</u></u>

See accompanying notes to the basic financial statements

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Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Note 1 - Description of the Service Center

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

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 three local, twenty-six city, and one exempted village school districts. The Board controls the Service Center's staff who provides services to over 124,323 students and other community members in Cuyahoga, Lake, Lorain, and Geauga County.

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 six jointly governed organizations and one insurance purchasing pool. These organizations are the Lakeshore Northeast Ohio Computer Association, Cuyahoga Media Center, Alliance for School Funding, Cuyahoga County Early Intervention Collaborative, Positive Education Program, Cuyahoga County Special Education Regional Resource Center and the Ohio School Council's Workers' Compensation Group Rating Program. These organizations are presented in Notes 17 and 18 in the notes to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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.

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 only one major governmental fund.

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.

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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. The Service Center's trust funds are three investment trust funds which account for the activity of the external investment pool for the NC Quality Collaborative, Lakeshore Northeast Ohio Computer Association (LNOCA) and the Cuyahoga Media Center and one individual investment account for the Alliance for School Funding. 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.

The investment trust funds are accounted for using a flow of economic resources measurement focus.

D. Basis of Accounting

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

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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

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

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

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

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

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

E. Budgetary Data

The Service Center adopts a budget for all funds, other than agency funds.

The Service Center's Board adopts an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control 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 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.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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.

F. 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 2004, investments were limited to the Victory Federal Money Market Mutual Fund, Federal National Mortgage Association Note and STAROhio. Investments are reported at fair value. Fair value for the mutual fund is based on the fund's current share price.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

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 2004 amounted to \$171,477 which includes \$38,174 assigned from other Service Center funds.

The Service Center has segregated bank accounts for an individual investment account held separate from the Service Center's central bank account. This money is presented on the combined balance sheet as "cash and cash equivalents in segregated accounts" or "investments in segregated accounts" since they are not included as part of the Service Center's cash management pool.

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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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 year in which services are consumed.

H. 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.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

K. 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 statements.

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

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes includes the EMIS, title VI-B, LEP/immigrant, title I, preschool disabilities and improving teacher quality 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.

M. 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.

N. Interfund Transactions

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.

O. 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.

P. 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 Principle

For fiscal year 2004, the Service Center has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". GASB Statement No. 39 state that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government. The implementation of GASB Statement No. 39 did not affect the reporting entity of the Service Center.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Note 4 - Fund Deficit

Fund Balances at June 30, 2004 included the following individual fund balance deficits:

Special Revenue Funds

Local Grants	\$468,566
Miscellaneous Federal Grants	39,693

The special revenue fund deficit balances resulted from the conversion to generally accepted accounting principles and adjustments for accrued liabilities. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - 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 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general fund is 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).

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.

	<u>General</u>
GAAP Basis	(\$736,802)
Net Adjustment for Revenue Accruals	(5,375,370)
Beginning Unrecorded Cash	193,869
Ending Unrecorded Cash	(296,254)
Advance In	1,267,000
Net Adjustment for Expenditure Accruals	827,374
Advance Out	(887,000)
Adjustment for Encumbrances	(405,497)
Budget Basis	<u><u>(\$5,412,680)</u></u>

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Note 6 - Deposits and Investments

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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 monies 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.

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, 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 obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand At year end, the Service Center had \$100 in unreported cash on hand which is included on the balance sheet of the Service Center as part of "equity in pooled cash and cash equivalents."

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits At fiscal year end, the carrying amount of the Service Center's deposits was \$10,350,426 and the bank balance was \$12,557,455. Of the bank balance:

1. \$331,011 of the bank balance was covered by depository insurance; and
2. \$12,226,444 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State 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.

Investments Investments are categorized to give an indication of the level of risk assumed by the Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Service Center or its agent in the Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Service Center's name. The Victory Federal Money Market Mutual Fund and STAROhio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

	Category 2	Fair Value
STAROhio		\$18,097
STAROhio		69,084
Victory Federal Money Market Mutual Fund	\$2,057,927	2,057,927
Federal National Mortgage Association Note	494,167	494,167
	\$2,552,094	\$2,639,275

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$12,920,717	\$69,084
Cash on Hand	(100)	0
Investments which are part of the cash management pool:		
STAROhio	(18,097)	18,097
Victory Federal Money Market Mutual Fund	(2,057,927)	2,057,927
Federal National Mortgage Association Note	(494,167)	494,167
GASB Statement No. 3	\$10,350,426	\$2,639,275

Note 7 - Investment Pool

The Service Center serves as fiscal agent for various legally separate entities including the Media Center, NC Quality Control and Lakeshore Northeast Ohio Computer Association which make up the external portion of the investment pool. The Service Center pools the moneys of these entities with the Service Center's cash for investment purposes. The Service Center cannot allocate its investments between the internal and external investment pools. The investment pool is not registered with the Security Exchange Commission as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. Condensed financial information for the investment pool follows:

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Statement of Net Assets June 30, 2004

Assets

Equity in Pooled Cash and Cash Equivalents	\$12,909,045
Interest Receivable	20,609
	<hr/>
<i>Total Assets</i>	<u>\$12,929,654</u>

Net Assets Held in Trust for Pool Participants

Internal Portion	\$10,893,097
External Portion	2,036,557
	<hr/>
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u>\$12,929,654</u>

Statement of Changes in Net Assets For Fiscal Year Ended June 30, 2004

Additions

Interest	<u>\$194,720</u>
----------	------------------

Deductions

Distributions to Participants	222,361
Capital Transactions	4,570,797
	<hr/>
<i>Total Deductions</i>	<u>4,793,158</u>

Change in Net Assets (4,598,438)

Net Assets Beginning of Year 17,528,092

Net Assets End of Year \$12,929,654

Cash on Hand At year end, the investment pool had \$100 in undeposited cash on hand which is included on the balance sheet as part of "equity in pooled cash and cash equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements."

Deposits At year-end, the carrying amount of the Service Center's deposits was \$10,338,754 and the bank balance was \$12,526,444. Of the bank balance:

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

1. \$300,000 of the bank balance was covered by depository insurance; and
2. \$12,226,444 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State 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.

Investments Investments are categorized to give an indication of the level of risk assumed by the investment pool at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Service Center or its agent in the Service Center's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Service Center's name. The Victory Federal Money Market Mutual Fund and STAROhio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Fair Value
STAROhio	\$69,084
Victory Federal Money Market Mutual Funds	2,057,927
Totals	<u>\$2,127,011</u>

Note 8 - Receivables

Receivables at June 30, 2004, consisted of accounts and intergovernmental monies. All receivables are considered collectible within one year and in full.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
Special Education Excess Cost	\$11,320,674
Grant Services	991,787
State Cafeteria Subsidy	17,401
Alternative School Grants and Subsidy	549
Title VI-B Grants and Subsidy	8,313
LEP/Immigrant Grants and Subsidy	30,533
Improving Teacher Quality Grants and Subsidy	11,192
Miscellaneous Federal Grants and Subsidy	245,219
<i>Total Governmental Activities</i>	<u>\$12,625,668</u>

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 9 - State Funding

The Service Center, under State law, provides supervisory services to local school districts within its territory. Each city 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 amount the Service Center's local and client school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State foundation program settlements and remits the amount to the Service Center. The Service Center may provide additional supervisory services if the majority of local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.

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

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

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	6/30/03	Additions	Deletions	6/30/04
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$0	\$390,975	\$0	\$390,975
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	0	2,133,375	0	2,133,375
Furniture and Equipment	411,428	24,038	(21,467)	413,999
<i>Total Capital Assets, being depreciated</i>	411,428	2,157,413	(21,467)	2,547,374
Less Accumulated Depreciation				
Buildings and Improvements	0	(213,917)	0	(213,917)
Furniture and Equipment	(215,448)	(40,619)	13,511	(242,556)
Total Accumulated Depreciation	(215,448)	(254,536) *	13,511	(456,473)
Total Capital Assets, being depreciated, net	195,980	1,902,877	(7,956)	2,090,901
Governmental Activities Capital Assets, Net	\$195,980	\$2,293,852	(\$7,956)	\$2,481,876

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

* Depreciation expense was charged to governmental functions as follow:

Instruction:	
Regular	\$15,545
Special	1,046
Support Services:	
Pupils	231
Instructional Staff	5,956
Administration	228,660
Fiscal	3,012
Operation and Maintenance of Plant	86
Total Depreciation Expense	<u><u>\$254,536</u></u>

Note 11 - Interfund Transactions

Interfund balances at June 30, 2004, 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>	
Non-Major Funds	
Local Grants	\$626,000
Peer Assistance	17,000
Title III	14,000
Miscellaneous Federal Grants	230,000
<i>Total Governmental Activities</i>	<u><u>\$887,000</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 within the next fiscal year.

Note 12 - 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 2004, the Service Center contracted with Schools Ohio Risk Sharing Authority (SORSA) insurance company for the following insurance:

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Type	Amount
General Liability:	
General Aggregate	\$5,000,000
Per Occurrence	3,000,000
Umbrella Liability:	
General Aggregate	2,000,000
Per Occurrence	2,000,000
Buildings and Contents	1,590,000
Auto Liability:	
Per Occurrence (\$1,000 deductible)	1,000,000
Medical Payments	1,000/5,000
Uninsured Motorist	50,000

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 participates in the Ohio School Council's Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

Note 13 - Pension Plans

A. School Employees Retirement System

The Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations; for fiscal year 2003, 8.17 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, up to a statutory maximum amount, by the SERS' Retirement Board. The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$1,653,001, \$1,345,297 and \$670,657, respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002.

B. State Teachers Retirement System

The Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, 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 2003, 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

The Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$2,608,620, \$2,558,067 and \$1,856,502, respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$26,447 made by the Service Center and \$51,635 made by the plan members.

Note 14 - Postemployment Benefits

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

All STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Service Center, this amount equaled \$203,493 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$1,139,801.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Note 15 - 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. Accumulated unused vacation time is paid upon termination of employment. 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 five years with the Service Center), are paid one-fourth of their accumulated sick days up to a maximum 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 of 120 days.

B. Life Insurance

The Service Center provides life insurance and accidental death and dismemberment insurance to all employees through Ohio Schools Council.

Note 16 - Long-Term Obligations

The changes in the Service Center's long-term obligations during fiscal year 2004 were as follows:

	Outstanding June 30, 2003	Additions	Deductions	Outstanding June 30, 2004	Due Within One Year
Compensated Absences	\$922,948	\$306,548	\$36,476	\$1,193,020	\$856,449

Compensated absences will be paid from the general fund and the local grants and title VI-B special revenue funds.

Note 17 - Jointly Governed Organizations

A. Lakeshore Northeast Ohio Computer Association (LNOCA)

LNOCA is a jointly governed organization among sixteen school districts and the Service Center in Cuyahoga County. 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 2004 which was .39 percent of total revenues received by LNOCA.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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 2004.

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. Alliance for School Funding (Alliance)

The Alliance is a jointly governed organization among fifty school districts including the Service Center in Cuyahoga County. The jointly governed organization was formed to protect the concept of the existing system of school funding. Each participant pays an annual membership fee. The Service Center contributed \$2,700 to the Alliance during fiscal year 2004 which was 1.44 percent of total revenues received by the Alliance.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of thirteen members. Four members of the Governing Board are elected annually by the participants. 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 Alliance's financial statements, write to the Service Center at 5811 Canal Road, Valley View, Ohio 44125.

D. Cuyahoga County Early Intervention Collaborative (CCEIC)

The CCEIC selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed to provide interagency planning, policy development and implementation of programs for infant and toddlers with developmental disabilities or risk factors, and their families in Cuyahoga County. The Service Center did not make any contributions to the CCEIC in fiscal year 2004.

CCEIC's eight member governing board is made up of a representative from all the participating school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. To obtain a copy of the CCEIC's financial statements, write to the Service Center at 5811 Canal Road, Valley View, Ohio 44125.

Cuyahoga County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

E. 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 has not contributed to PEP in fiscal year 2004.

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 is 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.

F. Cuyahoga County Special Education Regional Resource Center (SERRC)

The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed 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 has not contributed the SERRC in fiscal year 2004.

SERRC is governed by a governing board of forty-seven members made up of all the superintendents of all the school districts in Cuyahoga County. The degree of control is exercised by an participating school district is limited to its representation on the Board. To obtain a copy of the SEERC's financial statements, write to the Service Center at 5811 Canal Road, Valley View, Ohio 44125.

Note 18 - Insurance Purchasing Pool

The Service Center participates in the Ohio School Council's Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The Executive Director of the OSC, or his designee, serves as coordinator of the program. Each year, the participating Service Centers pay an enrollment fee to the GRP to cover the costs of administering the program.

Notes 19 - Contingencies

A. Grants

The Service Center received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2004.

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

B. Litigation

The Service Center is a party to legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2004.

Note 20 - State School Funding Decision

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

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

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

**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER
CUYAHOGA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor Pass Through Grantor Program or Cluster Title	Pass Through Entity Identifying Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Pass Through Ohio Department of Education:</i>				
Nutrition Cluster:				
Federal School Breakfast	046532-05PU-2003	10.553	\$ 18,227	\$ 18,227
	046532-05PU-2004	10.553	38,856	38,856
Total School Breakfast			57,083	57,083
National School Lunch Program	046532-LLP4-2003	10.555	38,965	38,965
	046532-LLP4-2004	10.555	85,304	85,304
Total School Lunch			124,269	124,269
Total U.S. Department of Agriculture-Nutrition Cluster			<u>181,352</u>	<u>181,352</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title I -Grants in Local Educational Agency	046532-C1A1-2003	84.010	0	401
	046532-C1S1-2003	84.010	27,878	32,575
	046532-C1S1-2004	84.010	93,017	67,233
	046532-C1ST-2003-P	84.010	148,143	171,839
Total Title I			269,038	272,048
Special Education Cluster:				
Special Education-Grants to States (IDEA Part B)	046532-HSAD-03	84.027	0	5,556
	046532-6BAA-2003-P	84.027	21,875	23,275
	046532-6BEC-2002-P	84.027	0	14,688
	046532-6BER-2003-P	84.027	44,555	50,877
	046532-6BPT-2003-P	84.027	12,022	14,033
	046532-6BII-2003-P	84.027	88,437	158,482
	046532-6BSI-2004-P	84.027	1,988,256	1,401,754
	046532-6BSI-2003-P	84.027	403,230	509,534
	046532-6BSF-2004	84.027	65,374	0
	046532-6BPT-2004-P	84.027	38,233	36,508
	046532-6BSF-2003-P	84.027	230,138	280,656
Total Special Education			2,892,120	2,495,363
Special Education-Preschool Grant	046532-PGSI-2003-P	84.173	4,135	12,665
	046532-PGSI-2004	84.173	13,414	1,179
Total Special Preschool			17,549	13,844
Total Special Education Cluster			2,909,669	2,509,207
Goals 2000 - State and Local Education System	046532-G2-S3-2001	84.276	0	185
Alternative Education	046532-T4S1-2003	84.184	2,594	3,267
	046532-T4S1-2004-P	84.184	7,789	4,298
Total Alternative Education			10,383	7,565
Improving Teacher Quality State Grant	046532-TRA2-2004	84.367	98,303	94,962
<i>Passed through Ohio Department of Health:</i>				
English Language Acquisition Grant	046532-T3S1-2003	84.365	2,018	2,500
	046532-T3S1-2004	84.365	31,587	39,176
Total English Language			33,605	41,676
Total U.S. Department of Education			<u>3,320,998</u>	<u>2,925,643</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES				
<i>Passed through the State Library of Ohio:</i>				
State Library Program	046532-1-2-2002	45.310	0	104,705
Total Institute of Museum and Library Services			<u>0</u>	<u>104,705</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through the Ohio Department of MRDD:</i>				
Title XIX-Medical Assistance Program (CAFS)	046532-894322	93.778	214,030	214,030
SAMHSA-School Based Mental Health	6-U79-SM54817-2001	93.243	161,415	162,022
Total U.S. Department of Health and Human Services			<u>375,445</u>	<u>376,052</u>
Total Federal Assistance			<u>\$ 3,877,795</u>	<u>\$ 3,587,752</u>

The accompanying notes to this schedule are an integral part of this schedule.

**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

CFDA = Catalog of Federal Domestic Assistance.

The accompanying Schedule of Federal Awards Expenditures summarizes activity of the Service Center's federal award programs and has been prepared on the cash basis of accounting.

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.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Cuyahoga County Educational Service Center
Cuyahoga County
5811 Canal Road
Valley View, Ohio 44125-3300

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Cuyahoga County Educational Service Center, Cuyahoga County, Ohio (the Service Center), as of and for the year ended June 30, 2004, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated February 1, 2005. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the Service Center's management in a separate letter dated February 1, 2005.

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

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

Betty Montgomery
Auditor of State

February 1, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Cuyahoga County Educational Service Center
Cuyahoga County
5811 Canal Road
Valley View, Ohio 44125-3300

Compliance

We have audited the compliance of the Cuyahoga County Educational Service Center, Cuyahoga County, Ohio (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 its major federal program for the year ended June 30, 2004. The Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. 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 on the Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

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**Internal Control Over Compliance
(Continued)**

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

This report is intended for the information and use of management, the Board of Directors 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.



Betty Montgomery
Auditor of State

February 1, 2005

**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2004**

**OMB CIRCULAR A-133 § .505
SCHEDULE OF FINDINGS**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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**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
MARCH 22, 2005**