

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

LORAIN COUNTY

BASIC EXTERNAL FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Tom Tomlin, Treasurer



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Educational Service Center of Lorain County, prepared by Costin + Company, for the audit period July 1, 2003 to June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 31, 2005

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Educational Service Center of Lorain County
Lorain County
Basic External Financial Statements
For the Fiscal Year Ended June 30, 2004
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COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road

North Ridgeville, OH 44039

INDEPENDENT AUDITOR'S REPORT

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

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

As described in Note 3, during the year ended June 30, 2004, the Service Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments and changed its accounting for capital assets.

In accordance with Government Auditing Standards, we have also issued our report dated February 14, 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 the 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

February 14, 2005

Educational Service Center of Lorain County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

The discussion and analysis of the Educational Service Center of Lorain County (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key Financial Highlights for 2004 are as follows:

- A presentation of financial information under Governmental Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". Some analysis with prior year data cannot be generated by definition since this is the first year of presentation.
- In total, net assets increased by \$271,817.
- Revenues for governmental activities totaled \$8,132,720 in 2004. Of this total, 35 percent consisted of general revenues while program revenues accounted for the balance of 65 percent.
- Program expenses totaled \$7,860,903. Instructional expenses made up 18 percent of this total while support services accounted for 81 percent. Other expenses rounded out the remaining 1 percent.

Using this Annual Financial Report

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

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

Educational Service Center of Lorain County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2004?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund begins on page 11. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the general fund and the miscellaneous state grants fund.

Governmental Funds

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

Educational Service Center of Lorain County

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

The Educational Service Center as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2004 compared to 2003:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Assets		
Current and Other Assets	\$ 5,120,332	\$5,323,090
Capital Assets, Net	431,684	420,775
Total Assets	<u>5,552,016</u>	<u>5,743,865</u>
Liabilities		
Current and Other Liabilities	806,403	1,265,201
Long-Term Liabilities		
Due Within One Year	124,550	118,302
Due in More than One Year	194,160	205,276
Total Liabilities	<u>1,125,113</u>	<u>1,588,779</u>
Net Assets		
Invested in Capital Assets, Net of Debt	431,684	420,775
Restricted for Other Purposes	612,937	438,641
Unrestricted	3,382,282	3,295,670
Total Net Assets	<u>\$4,426,903</u>	<u>\$4,155,086</u>

Total assets decreased by \$191,849. Cash and cash equivalents decreased by \$452,579. The decrease is attributed to a lower cash balance on hand for the grant funds as well as a \$267,241 decrease in the general fund. Liabilities decreased by \$463,666 as a result of a decrease in deferred revenue, accounts payables, and claims payable.

By comparing assets and liabilities, one can see the overall position of the Educational Service Center improved as evidenced by the increase in net assets of \$271,817.

Educational Service Center of Lorain County

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

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the Educational Service Center has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	<i>Governmental Activities 2004</i>
Revenues	
Program Revenues:	
Charges for Services	\$3,853,991
Operating Grants and Contributions	1,451,814
<i>Total Program Revenues</i>	<u>5,305,805</u>
General Revenues:	
Grants and Entitlements	2,707,018
Investments	110,646
Miscellaneous	9,251
<i>Total General Revenues</i>	<u>2,826,915</u>
<i>Total Revenues</i>	<u>8,132,720</u>
Program Expenses	
Instruction:	
Regular	620,771
Special	834,802
Support Services:	
Pupil	888,359
Instructional Staff	4,151,664
Board of Education	28,972
Administration	476,660
Fiscal	344,217
Business	418,846
Operation and Maintenance of Plant	92,611
Central	3,268
Operation of Non-Instructional Services	733
<i>Total Program Expenses</i>	<u>7,860,903</u>
Changes in Net Assets	271,817
<i>Net Assets Beginning of Year</i>	<u>4,155,086</u>
<i>Net Assets End of Year</i>	<u>\$4,426,903</u>

Educational Service Center of Lorain County

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

Governmental Activities

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

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The \$2,555,098, Net Cost of Services 2004, tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

Table 3
Governmental Activities

	<i>Total Cost of Services 2004</i>	<i>Net Cost of Services 2004</i>
	<u>2004</u>	<u>2004</u>
Instruction:		
Regular	\$620,771	(\$16,365)
Special	834,802	(281,894)
Support Services:		
Pupil	888,359	56,895
Instructional Staff	4,151,664	(1,546,405)
Board of Education	28,972	(28,972)
Administration	476,660	(419,543)
Fiscal	344,217	(104,877)
Business	418,846	(130,853)
Operation and Maintenance of Plant	92,611	(80,466)
Central	3,268	(1,885)
Operation of Non-Instructional Services	<u>733</u>	<u>(733)</u>
<i>Total</i>	<u><u>\$7,860,903</u></u>	<u><u>(\$2,555,098)</u></u>

The Educational Service Center's Funds

Information regarding the Educational Service Center's major funds can be found on page 24 of the notes to the basic financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$7,541,987 and expenditures totaled \$7,958,792. The General Fund balance decreased \$182,355 primarily due to increased support service instructional expenditures and reduced investment earnings due to declining interest rates. The Miscellaneous State Grants Fund balance decreased by \$133,781 due to additional support services instructional staff spending.

Educational Service Center of Lorain County

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

General Fund Budgeting Highlights

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the general fund.

During the course of fiscal 2004, the Educational Service Center amended its general fund budget, but not significantly. 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 be awarded or material changes in existing grants will require a budgetary modification.

For the general fund, the final budget basis revenue estimate totaled \$6,155,476; this was above the original budget estimate of \$6,088,317. The main difference was increased collections from intergovernmental sources and customer sales and services. The final budget basis expenditures estimate totaled \$6,563,410 compared to original estimates of \$6,238,453. The increase in the budget can be attributed to increased costs associated with providing additional services to participating school districts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the Educational Service Center had \$431,684 invested in land, building and building improvements, furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal 2004 values compared to 2003.

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

	<i>Governmental Activities</i>	
	<i>2004</i>	<i>2003</i>
Land	\$50,000	\$50,000
Construction inProgress	\$18,800	\$0
Buildings and Improvements	385,637	331,011
Vehicles	22,229	22,229
Furniture and Fixtures	357,962	341,659
Accumulated Depreciation	(402,943)	(324,123)
<i>Totals</i>	<u>\$431,685</u>	<u>\$420,776</u>

All capital assets are reported at historical cost. For more information on capital assets refer to Note 11 of the basic financial statements.

Educational Service Center of Lorain County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Current Financial Related Activities

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

Contacting the Educational Service Center District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service center's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Tom Tomlin, Treasurer, at the Educational Service Center of Lorain County, 1885 Lake Ave., Lorain, Ohio 44035 or calling 440-324-5777.

Educational Service Center of Lorain County

Statement of Net Assets

June 30, 2004

	<i>Governmental Activities</i>
<i>Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$3,696,201
Cash and Cash Equivalents with Fiscal Agent	558,047
Accrued Interest Receivable	17,319
Due From Others	106,500
Intergovernmental Receivable	742,265
Non-Depreciable Capital Assets	68,800
Depreciable Capital Assets, net	362,884
<i>Total Assets</i>	<u>5,552,016</u>
 <i>Liabilities</i>	
Accounts Payable	32,381
Accrued Wages and Benefits	533,332
Intergovernmental Payable	108,448
Claims Payable	119,063
Matured Compensated Absences	13,179
Long-Term Liabilities:	
Due Within One Year	124,550
Due in More Than One Year	194,160
<i>Total Liabilities</i>	<u>1,125,113</u>
 <i>Net Assets</i>	
Invested in Capital Assets, Net of Related Debt	431,684
Restricted for Other Purposes	612,937
Unrestricted	3,382,282
<i>Total Net Assets</i>	<u><u>\$4,426,903</u></u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County

Statement of Activities

June 30, 2004

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Net(Expense) Revenue and Changes in Net Assets</u>
Governmental Activities				
Instruction:				
Regular	\$620,771	\$512,038	\$92,368	(\$16,365)
Special	834,802	234,919	317,989	(281,894)
Support Services:				
Pupils	888,359	891,395	53,859	56,895
Instructional Staff	4,151,664	1,760,276	844,983	(1,546,405)
Board of Education	28,972	0	0	(28,972)
Administration	476,660	34,060	23,057	(419,543)
Fiscal	344,217	125,801	113,539	(104,877)
Business	418,846	287,993	0	(130,853)
Operation and Maintenance of Plant	92,611	7,509	4,636	(80,466)
Central	3,268	0	1,383	(1,885)
Operation of Non-Instructional Services	733	0	0	(733)
Totals	<u>\$7,860,903</u>	<u>\$3,853,991</u>	<u>\$1,451,814</u>	<u>(\$2,555,098)</u>
 General Revenues				
				2,707,018
Grants and Entitlements not Restricted to Specific Programs				110,646
Investment Earnings				9,251
Miscellaneous				<u>2,826,915</u>
Total General Revenues				<u>2,826,915</u>
Change in Net Assets				271,817
Net Assets Beginning of Year - Restated (See Note 3)				<u>4,155,086</u>
Net Assets End of Year				<u>\$4,426,903</u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County

Balance Sheet
Governmental Funds
June 30, 2004

	<i>General</i>	<i>Miscellaneous</i>	<i>Other</i>	<i>Total</i>
	<i>Fund</i>	<i>State Grants</i>	<i>Governmental</i>	<i>Governmental</i>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<i>Funds</i>		<i>Funds</i>	<i>Funds</i>
	<u> </u>		<u> </u>	<u> </u>
<i>Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$3,386,424	\$129,908	\$179,869	\$3,696,201
Accrued Interest Receivable	17,319	0	0	17,319
Interfund Receivable	123,500	0	0	123,500
Intergovernmental Receivable	670,000	0	72,265	742,265
<i>Total Assets</i>	<u>\$4,197,243</u>	<u>\$129,908</u>	<u>\$252,134</u>	<u>\$4,579,285</u>
<i>Liabilities</i>				
Accounts Payable	\$25,924	\$0	\$6,457	\$32,381
Accrued Wages and Benefits	431,162	90,720	11,450	533,332
Interfund Payable	0	0	17,000	17,000
Intergovernmental Payable	71,237	14,630	2,111	87,978
Matured Compensated Absences	13,179	0	0	13,179
Deferred Revenue	546,216	0	33,830	580,046
<i>Total Liabilities</i>	<u>1,087,718</u>	<u>105,350</u>	<u>70,848</u>	<u>1,263,916</u>
<i>Fund Balances</i>				
Reserved for Encumbrances	156,525	2,200	14,821	173,546
Unreserved, Undesignated, Reported in:				
General Fund	2,953,000	0	0	2,953,000
Special Revenue Funds	0	22,358	166,465	188,823
<i>Total Fund Balances</i>	<u>3,109,525</u>	<u>24,558</u>	<u>181,286</u>	<u>3,315,369</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,197,243</u>	<u>\$129,908</u>	<u>\$252,134</u>	<u>\$4,579,285</u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004

<i>Total Governmental Fund Balances</i>	\$3,315,369
 <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.	431,684
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	580,046
Intergovernmental Payable includes contractually required pension obligations not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(20,470)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	438,984
Long-term compensated absences liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(318,710)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$4,426,903</u></u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
June 30, 2004

	<i>General Fund</i>	<i>Miscellaneous State Grants</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
Revenues				
Intergovernmental	\$2,697,948	\$729,809	\$666,436	\$4,094,193
Interest	99,959	0	0	99,959
Tuition and Fees	1,986,657	0	0	1,986,657
Gifts and Donations	0	0	30,790	30,790
Customer Sales and Services	1,321,118	0	19	1,321,137
Miscellaneous	9,251	0	0	9,251
<i>Total Revenues</i>	<u>6,114,933</u>	<u>729,809</u>	<u>697,245</u>	<u>7,541,987</u>
Expenditures				
Current:				
Instruction:				
Regular	522,270	350	77,871	600,491
Special	589,442	0	275,961	865,403
Support Services:				
Pupils	824,440	0	61,123	885,563
Instructional Staff	3,218,300	825,490	157,989	4,201,779
Board of Education	29,127	0	0	29,127
Administration	312,002	0	151,563	463,565
Fiscal	298,742	37,750	8,048	344,540
Business	398,867	0	0	398,867
Operation and Maintenance of Plant	159,029	0	7,316	166,345
Central	0	0	2,379	2,379
Operation of Non-Instructional Services	733	0	0	733
<i>Total Expenditures</i>	<u>6,352,952</u>	<u>863,590</u>	<u>742,250</u>	<u>7,958,792</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(238,019)</u>	<u>(133,781)</u>	<u>(45,005)</u>	<u>(416,805)</u>
Other Financing Sources (Uses)				
Transfers In	56,164	0	0	56,164
Transfers Out	(500)	0	(55,664)	(56,164)
<i>Total Other Financing Sources (Uses)</i>	<u>55,664</u>	<u>0</u>	<u>(55,664)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(182,355)	(133,781)	(100,669)	(416,805)
Fund Balances Beginning				
<i>of Year- Restated (See Note 3)</i>	3,291,880	158,339	281,955	3,732,174
<i>Fund Balances End of Year</i>	<u><u>\$3,109,525</u></u>	<u><u>\$24,558</u></u>	<u><u>\$181,286</u></u>	<u><u>\$3,315,369</u></u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 June 30, 2004

Net Change in Fund Balances - Total Governmental Funds (\$416,805)

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

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

Capital Assets - Additions	92,918	
Depreciation	(82,009)	
	10,909	
<i>Total</i>		10,909

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 580,046

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

Pension Contributions	(17,599)	
Compensated Absences	4,868	
	(12,731)	
<i>Total</i>		(12,731)

The internal service fund used by management to charge the costs of health insurance is included in the statement of activities and not on the governmental fund expenditures. This is the amount that revenues exceeded expenses during the year. 110,398

Changes in Net Assets of Governmental Activities \$271,817

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget (Non-GAAP Basis) and Actual
General Fund
June 30, 2004

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with Final Budget Over/(Under)</i>
	<i>Original</i>	<i>Final</i>		
<i>Revenues</i>				
Intergovernmental	\$2,660,795	\$2,697,948	\$2,697,948	\$0
Interest	133,000	104,291	104,291	0
Tuition and Fees	1,920,000	1,986,657	1,986,657	0
Customers Sales and Services	1,374,122	1,357,329	1,357,329	0
Miscellaneous	400	9,251	9,251	0
<i>Total Revenues</i>	<u>6,088,317</u>	<u>6,155,476</u>	<u>6,155,476</u>	<u>0</u>
<i>Expenditures</i>				
Current:				
Instruction:				
Regular	515,542	525,952	525,952	0
Special	580,079	603,728	603,728	0
Support Services:				
Pupils	824,372	823,105	823,105	0
Instructional Staff	2,995,792	3,339,065	3,339,065	0
Board of Education	45,935	54,252	54,252	0
Administration	349,540	323,160	323,160	0
Fiscal	311,557	300,667	300,667	0
Business	356,295	408,788	408,788	0
Operation and Maintenance of Plant	258,941	165,160	165,160	0
Operation of Non-Instructional Services	400	733	733	0
Capital Outlay	0	18,800	18,800	0
<i>Total Expenditures</i>	<u>6,238,453</u>	<u>6,563,410</u>	<u>6,563,410</u>	<u>0</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(150,136)</u>	<u>(407,934)</u>	<u>(407,934)</u>	<u>0</u>
<i>Other Financing Sources and Uses</i>				
Transfers In	0	56,164	56,164	0
Advances In	149,000	29,650	29,650	0
Transfers Out	0	(500)	(500)	0
Advances Out	(145,000)	(123,500)	(123,500)	0
<i>Total Other Financing Sources and Uses</i>	<u>4,000</u>	<u>(38,186)</u>	<u>(38,186)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(146,136)</u>	<u>(446,120)</u>	<u>(446,120)</u>	<u>0</u>
<i>Fund Balance Beginning of Year</i>	3,380,867	3,380,867	3,380,867	0
Prior Year Encumbrances Appropriated	268,255	268,255	268,255	0
<i>Fund Balance End of Year</i>	<u>\$3,502,986</u>	<u>\$3,203,002</u>	<u>\$3,203,002</u>	<u>\$0</u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
 Schedule of Revenues, Expenditures and Changes
 in Fund Balances - Budget (Non-GAAP Basis) and Actual
 Miscellaneous State Grants Fund
 June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$700,000	\$729,809	\$729,809	\$0
<i>Total Revenues</i>	<u>700,000</u>	<u>729,809</u>	<u>729,809</u>	<u>0</u>
Expenditures				
Current:				
Instruction:				
Regular	8,580	2,630	2,630	0
Support Services:				
Instructional Staff	238,655	810,785	810,785	0
Fiscal	<u>0</u>	<u>37,750</u>	<u>37,750</u>	<u>0</u>
<i>Total Expenditures</i>	<u>247,235</u>	<u>851,165</u>	<u>851,165</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	452,765	(121,356)	(121,356)	0
<i>Fund Balance Beginning of Year</i>	178,175	178,175	178,175	0
Prior Year Encumbrances Appropriated	<u>70,889</u>	<u>70,889</u>	<u>70,889</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$701,829</u></u>	<u><u>\$127,708</u></u>	<u><u>\$127,708</u></u>	<u><u>\$0</u></u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Statement of Fund Net Assets
Internal Service Fund
June 30, 2004

	<u><i>Self Insurance</i></u>
<i>Assets</i>	
Cash and Cash Equivalents with Fiscal Agent	<u>\$558,047</u>
<i>Total Assets</i>	<u><u>558,047</u></u>
<i>Liabilities</i>	
Claims Payable	<u>119,063</u>
<i>Total Liabilities</i>	<u>119,063</u>
<i>Net Assets</i>	
Unrestricted	<u>438,984</u>
<i>Total Net Assets</i>	<u><u>\$438,984</u></u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
June 30, 2004

	<i>Self Insurance</i>
<i>Operating Revenues</i>	
Charges for Services	\$788,017
<i>Total Operating Revenues</i>	788,017
<i>Operating Expenses</i>	
Purchased Services	45,906
Claims	642,400
<i>Total Operating Expenses</i>	688,306
<i>Operating Income</i>	99,711
<i>Non-Operating Revenues</i>	
Interest	10,687
<i>Total Non-Operating Revenues</i>	10,687
<i>Net Income</i>	110,398
<i>Net Assets at Beginning of Year</i>	328,586
<i>Net Assets at End of Year</i>	\$438,984

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County

Statement of Cash Flows

Internal Service Fund

June 30, 2004

	<u><i>Self Insurance</i></u>
<i>INCREASE IN CASH AND CASH EQUIVALENTS</i>	
<i>Cash Flows from Operating Activities</i>	
Cash Received from Customers	\$788,017
Cash Payments to Suppliers for Goods and Services	(45,906)
Cash Payments for Claims	<u>(675,437)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>66,674</u>
<i>Cash Flows from Investing Activities</i>	
Interest on Investments	<u>10,687</u>
<i>Net Cash Provided by Investing Activities</i>	<u>10,687</u>
<i>Net Increase in Cash and Cash Equivalents</i>	77,361
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>480,686</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$558,047</u></u>
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i>	
<i>Operating Income</i>	<u>\$99,711</u>
<i>Adjustments:</i>	
Changes in Liabilities:	
Decrease in Claims Payable	<u>(33,037)</u>
<i>Total Adjustments</i>	<u>(33,037)</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$66,674</u></u>

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County

Statement of Fiduciary Net Assets

Fiduciary Fund

June 30, 2004

	<u><i>Investment Trust</i></u>	<u><i>Agency</i></u>
<i>Assets</i>		
Equity in Pooled Cash and Cash Equivalents	\$1,621,364	\$244,330
Cash and Cash Equivalents in Segregated Accounts	0	4,567,131
Accrued Interest Receivable	5,425	12,173
Intergovernmental Receivable	0	153,569
<i>Total Assets</i>	<u>1,626,789</u>	<u>4,977,203</u>
<i>Liabilities</i>		
Accounts Payable	0	13,365
Accrued Wages and Benefits	0	17,912
Interfund Payable	0	106,500
Intergovernmental Payable	0	38,049
Undistributed Monies	0	4,632,002
Deferred Revenue	0	153,569
<i>Total Liabilities</i>	<u>0</u>	<u>4,961,397</u>
<i>Long Term Liabilities</i>		
Due in More Than One Year	0	15,806
<i>Total Liabilities</i>	<u>0</u>	<u>\$4,977,203</u>
<i>Net Assets</i>		
Held in Trust for Pool Participants	<u>1,626,789</u>	
<i>Total Net Assets</i>	<u>1,626,789</u>	

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
June 30, 2004

	<i>Investment Trust</i>
<i>Additions</i>	
Interest	\$15,563
 <i>Deductions</i>	
Distributions to Participants	(15,563)
Capital Transactions	(194,278)
<i>Total Deductions</i>	(209,841)
 <i>Change in Net Assets</i>	 (194,278)
 <i>Net Assets Beginning of Year</i>	 1,821,067
 <i>Net Assets End of Year</i>	 \$1,626,789

See Accompanying Notes to the Basic Financial Statements

Educational Service Center of Lorain County

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

Note 1 - Description of the Educational Service Center

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

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's facility and staff who provide services to 28,663 students in local, city and exempted village school districts in Lorain County.

Reporting Entity

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

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

The Educational Service Center is associated with certain organizations which are defined as a jointly governed organization and public entity risk pools. These organizations are presented in Notes 9 and 10 to the general purpose financial statements. These organizations are the Lake Erie Educational Computer Association (LEECA), Sheakley Workers Compensation Group Rating Program (WCGRP), the Lake Erie Regional Council of Governments (LERC) and the Special Education Regional Resource Center (SERRC).

Note 2 - Summary of Significant Accounting Policies

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

Educational Service Center of Lorain County

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

Educational Service Center of Lorain County

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

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

Miscellaneous Grants Special Revenue Fund The miscellaneous grants fund accounts for various local programs run by the Educational Service Center funded by various local sources.

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

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

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis. The Educational Service Center's only internal service fund accounts for the operation of the Educational Service Center's self-insurance program for employee medical benefits.

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

C. Measurement Focus

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

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

Educational Service Center of Lorain County

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

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus (continued)

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

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

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

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

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

Educational Service Center of Lorain County

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

Note 2 - Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

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

E. Budgetary Data

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

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

The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Educational Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board.

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

Educational Service Center of Lorain County

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

Note 2 - Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

During fiscal year 2004, investments were limited to certificates of deposit, STAR Ohio, the State Treasurer's Investment Pool, repurchase agreements, treasury notes, commercial paper and federal agency securities. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center has invested funds in the State Treasury Asset Reserve of Ohio ("STAR Ohio") during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2004, the general fund, self insurance internal service fund, and LEECA investment trust fund received interest respectively; \$99,959, \$10,687, \$15,563.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District's capitalization threshold is \$2,400. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Educational Service Center of Lorain County

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

Note 2 - Summary of Significant Accounting Policies (continued)

H. Capital Assets (continued)

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

I. Interfund Balances

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

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means

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

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due

Educational Service Center of Lorain County

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

Note 2 - Summary of Significant Accounting Policies (continued)

L. Interfund Transactions

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available

N. Fund Balance Reserves

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

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

Educational Service Center of Lorain County

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

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance

A. Changes in Accounting Principles

For fiscal year 2004, the Educational Service Center has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”; GASB No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB No. 38, “Certain Financial Statement Note Disclosures”, and GASB Interpretation No. 41, “Budgetary Comparison Schedules – Perspective Differences”, and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.” At June 30, 2004, there was no effect on fund balance as a result of implementing GASB statement 41.

GASB Statement No. 34 creates new basic financial statements for reporting on the Educational Service Center’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. Restatement of Fund Balance

The new standards for reporting fund obligations for compensated absences in Interpretation 6 caused changes in previously reported fund balances. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<i>General</i>	<i>Miscellaneous Grants</i>	<i>Nonmajor</i>	<i>Total</i>
<i>Fund Balance June 30, 2003</i>	\$3,265,733	\$158,339	\$281,214	\$3,705,286
<i>GASB 6 Compensated Absences</i>	26,147	0	741	26,888
<i>Restated Fund Balances, June 30, 2003</i>	<u>\$3,291,880</u>	<u>\$158,339</u>	<u>\$281,955</u>	<u>3,732,174</u>
<i>GASB 34 Adjustments:</i>				
<i>Capital Assets</i>				420,775
<i>Internal Service Fund</i>				328,586
<i>Long-Term Liabilities:</i>				
<i>Pension Obligations</i>				(2,871)
<i>Compensated Absences</i>				(323,578)
<i>Governmental Activities Net</i>				<u>\$4,155,086</u>

Educational Service Center of Lorain County

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

Note 4 - Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity-Budget and Actual (Budget Basis) Proprietary Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

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

Net Change in Fund Balance

	<u>General</u>	<u>Miscellaneous Grants</u>
<i>GAAP Basis</i>	(\$182,355)	(\$133,781)
Net Adjustment for Revenue Accruals	40,543	0
Advances In	29,650	0
Net Adjustment for Expenditure Accruals	(210,458)	12,425
Advances Out	(123,500)	0
<i>Budget Basis</i>	<u>(\$446,120)</u>	<u>(\$121,356)</u>

Note 5 - Deposits and Investments

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

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

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

Educational Service Center of Lorain County

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

Note 5 - Deposits and Investments (continued)

Category 3 consists of "interim" moneys, those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts (including passbook accounts).

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

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

1. United States Treasury Notes, Bills, Bonds, or other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily; and that the term of the agreement does not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio; (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Educational Service Center of Lorain County

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

Note 5 - Deposits and Investments (continued)

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

Deposits:

At year-end, the carrying amount of the Educational Service Center's deposits was \$4,231,677 and the bank balance was \$4,402,798. Of the bank balance, \$1,588,000 was covered by federal depository insurance and \$2,814,798 was covered by collateral held in the pledging bank's trust department in the Educational Service Center's name. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments:

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements", requires the Educational Service Center to categorize investments to give an indication of the level of custodial credit risk assumed by the Educational Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational 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 Educational Service Center's name. The Educational Service Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<i>Category 3</i>	<i>Fair Value</i>
Federal Home Loan Bank	\$2,842,106	\$2,842,106
Federal Home Loan Mortgage	981,135	981,135
Federal National Mortgage Association	2,455,823	2,455,823
FANNIEMAE	75,141	75,141
FREDDIEMAC	50,266	50,266
STAR Ohio		50,925
<i>Total Investments</i>		<u>\$6,455,396</u>

Educational Service Center of Lorain County

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

Note 5 - Deposits and Investments (continued)

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:

	<i>Cash and Cash Equivalents/Deposits</i>	<i>Investments</i>
<i>GASB Statement No. 9</i>	\$10,687,080	\$0
Investments which are part of the cash management pool:		
Federal Home Loan Bank	(2,842,106)	2,842,106
Federal Home Loan Mortgage	(981,135)	981,135
Federal National Mortgage Association	(2,455,823)	2,455,823
FANNIEMAE	(75,141)	75,141
FREDDIEMAC	(50,266)	50,266
STAR Ohio	(50,925)	50,925
<i>GASB Statement No. 3</i>	\$4,231,684	\$6,455,396

Note 6 - Receivables

Receivables at June 30, 2004, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds and all receivables will be collected within one year. A summary of the principal items of intergovernmental receivables follows:

<i>Governmental Activities</i>	<i>Amounts</i>
Customer Services	\$670,000
Public Preschool Fund	13,611
Alternative Education Fund	5,149
Title I Fund	6,000
Handicapped Preschool Fund	9,070
Miscellaneous Federal Grants Fund	38,435
<i>Total Intergovernmental Receivables</i>	\$742,265

Note 7 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$47.02 for each of the 28,663 students who are provided services. The \$47.02 is comprised of the following: \$6.50 times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school district's to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, \$40.52 times the ADM is paid by the State Board of Education from State funds.

Educational Service Center of Lorain County

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

Note 7 - State Funding (continued)

If additional funding is required, and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of \$47.02 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation program. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Note 8 - External Investment Pool

By State statute, the Educational Service Center serves as fiscal agent for a legally separate entity. The Educational Service Center pools money of this entity with the Educational Service Center's for investment purposes. The Educational Service Center cannot allocate its investment between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The fair value and carrying amounts for both the internal and external investment pools are disclosed in Note 5, "Deposits and Investments". Condensed financial information for the investment pool follows:

Statement of Net Assets June 30, 2004

Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,561,895
Interest Receivable	22,744
<i>Total Assets</i>	<u>\$5,584,639</u>
 Net Asset Held in Trust for Pool Participants	
Internal Portion	\$3,957,850
External Portion	1,626,789
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u>\$5,584,639</u>

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

Revenues	
Interest	\$121,333
Expenses	
Operating Expenses	0
<i>Net Increase in Assets Resulting from Operations</i>	<u>121,333</u>
Distribution to Participants	(126,172)
Capital Transactions	(830,829)
<i>Total Increase in Net Assets</i>	<u>(835,668)</u>
<i>Net Assets Beginning of Year</i>	<u>6,420,307</u>
<i>Net Assets End of Year</i>	<u>\$5,584,639</u>

Educational Service Center of Lorain County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 9 - Jointly Governed Organizations

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

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

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

The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed operation was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The educational service center has not contributed to the SERRC during fiscal year 2004.

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

Note 10 - Public Entity Risk Pools

Claims Servicing Pool

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

Educational Service Center of Lorain County

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

Note 11 - Capital Assets

The capital asset balances of the governmental activities have been restated due to a change in the Educational Service Center's capital asset policy:

	<i>Balance at 6/30/03</i>	<i>Adjustments</i>	<i>Restated Balance at 6/30/03</i>
<i>Governmental Activities:</i>			
<i>Capital Assets, not being depreciated:</i>			
Land	\$50,000	\$0	\$50,000
<i>Capital Assets, being depreciated:</i>			
Building & Improvements	331,011	0	331,011
Vehicles	22,229	0	22,229
Furniture, Fixtures & Equipment	341,658	0	341,659
<i>Total Capital Assets, being depreciated</i>	694,898	0	694,899
<i>Less Accumulated Depreciation:</i>			
Building & Improvements	0	(52,415)	(52,415)
Vehicles	0	(2,222)	(2,222)
Furniture, Fixtures & Equipment	0	(269,486)	(269,486)
<i>Total Accumulated Depreciation</i>	0	(324,123)	(324,123)
<i>Governmental Activities Capital Assets, Net</i>	\$744,898	(\$324,123)	\$420,776

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

	<i>Restated Balance at 6/30/03</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at 6/30/04</i>
<i>Governmental Activities:</i>				
<i>Capital Assets, not depreciated:</i>				
Construction in Progress	\$0	\$18,800	\$0	\$18,800
Land	50,000	0	0	50,000
<i>Total Capital Assets, not depreciated</i>	50,000	18,800	0	68,800
<i>Capital Assets, being depreciated:</i>				
Building & Improvements	331,011	54,626	0	\$385,637
Vehicles	22,229	0	0	22,229
Furniture, Fixtures & Equipment	341,659	19,492	3,189	357,962
<i>Total Capital Assets, being depreciated</i>	694,899	74,118	3,189	765,828
<i>Less Accumulated Depreciation:</i>				
Building & Improvements	(52,415)	(43,346)	0	(95,761)
Vehicles	(2,222)	(4,446)	0	(6,668)
Furniture, Fixtures & Equipment	(269,486)	(34,217)	3,189	(300,514)
<i>Total Accumulated Depreciation</i>	(324,123)	(82,009)	3,189	(402,943)
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	370,775	(7,891)	0	362,885
<i>Governmental Activities Capital Assets, Net</i>	\$420,776	\$10,909	\$0	\$431,685

Educational Service Center of Lorain County

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

Note 11 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$21,829
Special	3,011
Support Services:	
Pupils	13,465
Instructional Staff	20,161
Administration	13,351
Fiscal	3,388
Central	6,803
	<hr/>
<i>Total Depreciation Expense</i>	<u><u>\$82,009</u></u>

Note 12 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the Educational Service Center contracted with Indiana Insurance Company for general liability insurance. Leased vehicles are covered by Indiana Insurance Company and have a \$50 deductible for comprehensive and a \$250 deductible for collision. The vehicle liability insurance is on an occurrence basis with a \$1,000,000 combined single limit. Claims have never exceeded this coverage.

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

For fiscal year 2004, the Educational Service Center participated in the Sheakley Workers' Compensation Group rating Program. The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members are calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. Sheakley Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

Health, vision and dental insurances are available to most employees through a self-insurance internal service fund. The claims liability of \$119,063 reported in the internal service fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years is as follows:

Educational Service Center of Lorain County

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

Note 12 - Risk Management (continued)

	<i>Balance at Beginning of Year</i>	<i>Current Year Claims</i>	<i>Claims Payments</i>	<i>Balance at End of Year</i>
2003	\$107,338	\$449,700	\$404,938	\$152,100
2004	152,100	642,400	675,437	119,063

Note 13 - Defined Benefit Pension Plan

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; for 2004, 9.09 percent 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 rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Educational Service Center's contributions to SERS for the years ended June 30, 2004, 2003, and 2002 were \$297,008, \$273,908 and \$245,636, respectively, equal to the required contributions for each year. 100 percent has been contributed for all three fiscal years.

B. State Teachers Retirement System

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

Educational Service Center of Lorain County

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

Note 13 - Defined Benefit Pension Plan (continued)

B. State Teachers Retirement System (continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 65 or termination of employment. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and the employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contributions to STRS for the years ended June 30, 2004, 2003, and 2002 were \$616,970, \$538,616, and \$401,127, respectively, equal to the required contributions for each year. 100 percent of the STRS contributions have been contributed for all three fiscal years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose social security. As of June 30, 2004, four of the governing board members have elected social security. The board's liability is 6.2 percent of the wages paid.

Note 14 - Post Employment Benefits

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

Educational Service Center of Lorain County

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

Note 14 - Post Employment Benefits (continued)

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the Educational Service Center, this amount equaled \$44,069 during the 2004 fiscal year.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the fund was \$3.1 billion at June 30, 2004. 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 10 or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium for this fiscal year, employer contributions to fund health care benefits were 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. The surcharge rate added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. For fiscal year 2004, the minimum pay was established at \$25,400. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$126,966, during the fiscal year. The target level for the health care reserves is 150 percent of annual health care expenses. Expenses for health care at June 30, 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 participating currently receiving health care benefits.

Note 15 - Employee Benefits

A. Compensated Absences

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

B. Life Insurance

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

Educational Service Center of Lorain County

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

Note 16 - Long-Term Obligations

Changes in long-term obligations during fiscal year 2004, are as follows:

	<i>Principal Outstanding July 1, 2003</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding June 30, 2004</i>	<i>Due Within One Year</i>
Compensated Absences	\$321,919	\$94,863	\$84,893	\$331,889	\$124,550
<i>Total Long-Term Obligations</i>	<i>\$321,919</i>	<i>\$94,863</i>	<i>\$84,893</i>	<i>\$331,889</i>	<i>\$124,550</i>

Compensated absences will be paid from the fund from which the employees' salaries are paid.

Note 17 - Operating Lease

The Educational Service Center is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreement is not reflected in the Educational Service Center's general long-term debt account group. During 2003, expenditures for the operating lease totaled \$24,090. The following is a schedule of future minimum lease payments as of June 30, 2004:

<i>Year Ending June 30,</i>	<i>Amount</i>
2005	\$29,305
2006	28,225
2007	28,225
2008	8,910
<i>Total Minimum Lease Payments</i>	<i>\$94,664</i>

Note 18 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 Educational Service Center at June 30, 2004.

B. Litigation

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

Educational Service Center of Lorain County

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

Note 19 - School Funding Issue

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

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

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

Note 20 – Interfund Transactions

Interfund balances at June 30, 2004, consist of the following individual fund receivables and payables:

<u>Fund</u>	<i>Interfund</i>	
	<u>Receivable</u>	<u>Payable</u>
General	\$123,500	\$0
<i>Non-Major Funds</i>		
Public Preschool	0	6,000
Title I	0	1,000
Early Childhood	0	10,000
<i>Total Non-Major Funds</i>	0	17,000
<i>SERRC Agency Fund</i>	0	49,500
<i>LEECA Investment Trust</i>	0	57,000
<i>Total – All Funds</i>	\$123,500	\$123,500

Note 21 – Subsequent Events

Subsequent to year end, the Educational Service Center entered into a contract with S.M. Fox Construction, Inc. in the amount of \$64,820 for building renovations.

The Educational Service Center also entered into a capital lease with Dollar Leasing Corp. for equipment. This lease will be paid over three years at \$59,313 per year.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

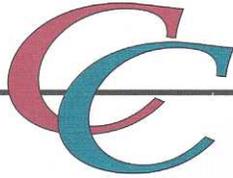
SUPPLEMENTAL AUDITOR'S REPORTS

JUNE 30, 2004

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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

YEAR ENDED JUNE 30, 2004



COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road
North Ridgeville, OH 44039

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

To the Governing Board
Educational Service Center of Lorain County
Lorain, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Educational Service Center of Lorain County (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 14, 2005, wherein we noted the Service Center adopted Governmental Accounting Standards Board Statement No. 34 and changed its accounting for capital assets. 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 performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported 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 in order 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.

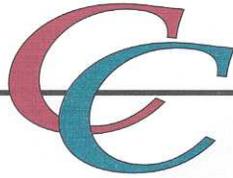
This report is intended solely for the information and use of management, Governing Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

February 14, 2005

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2004



COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road

North Ridgeville, OH 44039

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Governing Board
Educational Service Center of Lorain County
Lorain, Ohio

Compliance

We have audited the compliance of the Educational Service Center of Lorain County (Service Center) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are 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 each of its major federal programs is the responsibility of management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

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

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

Internal Control Over Compliance

The management of the Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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.

Schedule of Federal Awards Expenditures

We have audited the basic financial statements of the Service Center as of and for the year ended June 30, 2004, and have issued our report thereon dated February 14, 2005, wherein we noted the Service Center adopted Governmental Accounting Standards Board Statement No. 34 and changed its accounting for capital assets. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by OMB Circular A - 133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

February 14, 2005

A handwritten signature in black ink that reads "Lottin + Company". The signature is written in a cursive, flowing style with a horizontal line underneath the text.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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

YEAR ENDED JUNE 30, 2004

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 §.505
 JUNE 30, 2004

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 §.510?	No
(d)(1)(vii)	Major Programs	84.027 Special Education Cluster 84.173 Special Education Cluster
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 500,000 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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
SCHEDULE OF FEDERAL AWARDS
JUNE 30, 2004

	CFDA Number	Pass Through Number	Revenue Recognized	Federal Expenditures
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I	84.010	3Z3-04	79,000	79,001
Title I	84.010	C1-SD-03		64,953
			11,076	
Title I	84.010	CI-SD-04	102,023	113,640
Title I	84.010	C1-AF-03P	9,449	21,948
Total Title I			<u>201,548</u>	<u>279,542</u>
Education for Homeless Children and Youth	84.196	C1-HC-03		21,895
Education for Homeless Children and Youth	84.196	HC-S1-02	18,743	1,097
Education for Homeless Children and Youth	84.196	HC-S1-04	43,964	40,423
Education for Homeless Children and Youth	84.196		3,600	
Education for Homeless Children and Youth	84.196	HP-SP-03	8,000	8,000
Total Education for Homeless Children and Youth			<u>74,307</u>	<u>71,415</u>
Special Education Cluster:				
Title VI-B	84.027	SE-SI-03P	76,935	139,361
Title VI-B	84.027	6B-SI-04P	732,496	758,777
Title VI-B	84.027	6B-AA-03P	5,390	10,855
Total Title VI-B			<u>814,821</u>	<u>908,993</u>
Preschool Grants	84.173	PG-D7-03P	18,200	18,200
Preschool Grants	84.173	PG-S1-03P	25,403	23,007
Preschool Grants	84.173	PG-S1-04P	40,772	44,718
Total Preschool Grants			<u>84,375</u>	<u>85,925</u>
Total Special Education Cluster			<u>899,196</u>	<u>994,918</u>
Medical Assistance Program	93.778		39,496	23,948
Learn and Serve America	94.004	SV-S1-03		4,210
Learn and Serve America	94.004	SV-S2-03		1,177
Learn and Serve America	94.004	SV-S1-04	15,000	14,881
Total Learn and Serve America			<u>15,000</u>	<u>20,268</u>
Total Federal Financial Assistance			<u>\$1,229,547</u>	<u>\$1,390,091</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
SCHEDULE OF FEDERAL AWARDS
JUNE 30, 2004

NOTE A SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures and Federal Awards (Schedule) includes the federal grant activity of Educational Service Center of Lorain County and is presented on the cash basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements, which are presented on the full accrual basis.

CFDA – Catalog of Federal Domestic Assistance Number

N/A – Not Applicable



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 12, 2005**