

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003



**Auditor of State
Betty Montgomery**

Governing Body
Educational Service Center of Lorain County

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, 2002 through June 30, 2003. 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

February 6, 2004

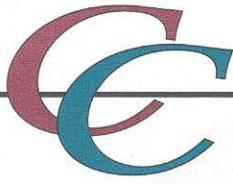
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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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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
Elyria, Ohio

We have audited the accompanying general purpose financial statements of the Educational Service Center of Lorain County, Ohio, as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Educational Service Center of Lorain County, Ohio's, management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center of Lorain County, Ohio, as of June 30, 2003, and the results of its operations and the changes in net assets of its fiduciary fund type and cash flows of its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated December 19, 2003, on our consideration of the Educational Service Center of Lorain County, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in conjunction with this report in considering the results of our audit.

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

December 19, 2003

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2003

	Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Types
	General	Special Revenue	Internal Service	Trust and Agency
Assets and Other Debit				
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 3,649,123	\$ 577,018	\$ -	\$ 2,166,584
Cash and Cash Equivalents in Segregated Accounts	-	-	-	4,896,106
Cash and Cash Equivalents with Fiscal Agent	-	-	480,686	-
Receivables:				
Intergovernmental	417,167	147,795	-	80,526
Accrued Interest	21,651	-	-	23,517
Interfund	29,650	-	-	-
Fixed Assets	-	-	-	-
Other Debit				
Amount to be Provided from General Government Resources	-	-	-	-
Total Assets and Other Debits	\$ 4,117,591	\$ 724,813	\$ 480,686	\$ 7,166,733
Liabilities, Fund Equity and Other Credits				
Liabilities				
Accounts Payable	\$ 58,440	\$ 51,509	\$ -	\$ 23,615
Accrued Wages	406,986	90,557	-	19,132
Compensated Absences Payable	63,373	741	-	25,826
Interfund Payable	-	27,850	-	1,800
Intergovernmental Payable	65,887	14,629	-	3,189
Deferred Revenue	257,172	99,974	-	78,287
Claims Payable	-	-	152,100	-
Undistributed Monies	-	-	-	5,193,816
Total Liabilities	851,858	285,260	152,100	5,345,665
Fund Equity and Other Credits				
Investment in General Fixed Assets	-	-	-	-
Retained Earnings:				
Unreserved	-	-	328,586	-
Net Assets	-	-	-	1,821,068
Fund Balance:				
Reserved for Encumbrances	210,301	122,597	-	-
Unreserved, Undesignated	3,055,432	316,956	-	-
Total Fund Equity and Other Credits	3,265,733	439,553	328,586	1,821,068
Total Liabilities, Fund Equity and Other Credits	\$ 4,117,591	\$ 724,813	\$ 480,686	\$ 7,166,733

The accompanying notes are an integral part of these financial statements

Account Groups		Totals
General Fixed Assets	General Long-Term Obligations	(Memorandum Only)
\$ -	\$ -	\$ 6,392,725
-	-	4,896,106
-	-	480,686
-	-	645,488
-	-	45,168
-	-	29,650
744,898	-	744,898
-	394,076	394,076
<u>\$ 744,898</u>	<u>\$ 394,076</u>	<u>\$ 13,628,797</u>

\$ -	\$ -	\$ 133,564
-	-	516,675
-	390,375	480,315
-	-	29,650
-	3,701	87,406
-	-	435,433
-	-	152,100
-	-	5,193,816
<u>-</u>	<u>394,076</u>	<u>7,028,959</u>
744,898	-	744,898
-	-	328,586
-	-	1,821,068
-	-	332,898
<u>-</u>	<u>-</u>	<u>3,372,388</u>
<u>744,898</u>	<u>-</u>	<u>6,599,838</u>
<u>\$ 744,898</u>	<u>\$ 394,076</u>	<u>\$ 13,628,797</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Revenues			
Intergovernmental	\$ 2,541,042	\$ 1,420,379	\$ 3,961,421
Interest	153,718	-	153,718
Tuition and Fees	1,991,701	1,561	1,993,262
Contributions and Donations	-	41,000	41,000
Customer Services	1,496,786	-	1,496,786
Miscellaneous	26,854	85,000	111,854
<i>Total Revenues</i>	<u>6,210,101</u>	<u>1,547,940</u>	<u>7,758,041</u>
Expenditures			
Current:			
Instruction:			
Regular	481,948	96,260	578,208
Special	560,404	227,852	788,256
Support Services:			
Pupils	817,531	58,014	875,545
Instructional Staff	3,106,407	895,298	4,001,705
Board of Education	31,051	-	31,051
Administration	324,373	139,826	464,199
Fiscal	288,182	17,259	305,441
Business	369,905	-	369,905
Operation and Maintenance of Plant	158,070	10,180	168,250
Central	499	606	1,105
Operation of Non-Instructional Services	350	-	350
Capital Outlay	112,101	-	112,101
<i>Total Expenditures</i>	<u>6,250,821</u>	<u>1,445,295</u>	<u>7,696,116</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(40,720)</u>	<u>102,645</u>	<u>61,925</u>
Other Financing Sources (Uses)			
Operating Transfers In	-	60,948	60,948
Operating Transfers Out	(130,565)	-	(130,565)
<i>Total Other Financing Sources (Uses)</i>	<u>(130,565)</u>	<u>60,948</u>	<u>(69,617)</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(171,285)</u>	<u>163,593</u>	<u>(7,692)</u>
<i>Fund Balances at Beginning of Year, as restated</i>	<u>3,437,018</u>	<u>275,960</u>	<u>3,712,978</u>
<i>Fund Balances at End of Year</i>	<u>\$ 3,265,733</u>	<u>\$ 439,553</u>	<u>\$ 3,705,286</u>

The accompanying notes are an integral part of these financial statements.

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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2003

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental	\$ 2,592,467	\$ 2,592,467	\$ -
Interest	160,250	160,250	-
Tuition and Fees	2,015,534	2,015,534	-
Contributions and Donations	-	-	-
Customer Services	1,448,497	1,448,497	-
Miscellaneous	26,854	26,854	-
<i>Total Revenues</i>	<u>6,243,602</u>	<u>6,243,602</u>	<u>-</u>
Expenditures			
Current:			
Instruction:			
Regular	476,260	476,260	-
Special	559,677	559,677	-
Support Services:			
Pupils	871,360	871,360	-
Instructional Staff	3,160,003	3,160,003	-
Board of Education	43,786	43,786	-
Administration	343,372	343,372	-
Fiscal	289,582	289,582	-
Business	344,829	344,829	-
Operation and Maintenance of Plant	172,043	172,043	-
Central	498	498	-
Operation of Non-Instructional Services	379	379	-
Capital Outlay	112,101	112,101	-
<i>Total Expenditures</i>	<u>6,373,890</u>	<u>6,373,890</u>	<u>-</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(130,288)</u>	<u>(130,288)</u>	<u>-</u>
Other Financing Sources (Uses)			
Advances In	16,500	16,500	-
Operating Transfers In	-	-	-
Operating Transfers Out	(130,565)	(130,565)	-
Advances Out	(29,650)	(29,650)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(143,715)</u>	<u>(143,715)</u>	<u>-</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(274,003)</u>	<u>(274,003)</u>	<u>-</u>
<i>Fund Balances at Beginning of Year</i>	3,490,349	3,490,349	-
<i>Prior Year Encumbrances Appropriated</i>	164,523	164,523	-
<i>Fund Balances at End of Year</i>	<u>\$ 3,380,869</u>	<u>\$ 3,380,869</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,436,378	\$ 1,436,378	\$ -	\$ 4,028,845	\$ 4,028,845	\$ -
-	-	-	160,250	160,250	-
1,561	1,561	-	2,017,095	2,017,095	-
41,000	41,000	-	41,000	41,000	-
85,000	85,000	-	1,533,497	1,533,497	-
-	-	-	26,854	26,854	-
<u>1,563,939</u>	<u>1,563,939</u>	<u>-</u>	<u>7,807,541</u>	<u>7,807,541</u>	<u>-</u>
163,726	163,726	-	639,986	639,986	-
279,634	279,634	-	839,311	839,311	-
60,640	60,640	-	932,000	932,000	-
869,767	869,767	-	4,029,770	4,029,770	-
-	-	-	43,786	43,786	-
137,721	137,721	-	481,093	481,093	-
17,259	17,259	-	306,841	306,841	-
-	-	-	344,829	344,829	-
12,359	12,359	-	184,402	184,402	-
3,706	3,706	-	4,204	4,204	-
-	-	-	379	379	-
-	-	-	112,101	112,101	-
<u>1,544,812</u>	<u>1,544,812</u>	<u>-</u>	<u>7,918,702</u>	<u>7,918,702</u>	<u>-</u>
19,127	19,127	-	(111,161)	(111,161)	-
27,850	27,850	-	44,350	44,350	-
60,948	60,948	-	60,948	60,948	-
-	-	-	(130,565)	(130,565)	-
-	-	-	(29,650)	(29,650)	-
<u>88,798</u>	<u>88,798</u>	<u>-</u>	<u>(54,917)</u>	<u>(54,917)</u>	<u>-</u>
107,925	107,925	-	(166,078)	(166,078)	-
251,781	251,781	-	3,742,130	3,742,130	-
43,885	43,885	-	208,408	208,408	-
<u>\$ 403,591</u>	<u>\$ 403,591</u>	<u>\$ -</u>	<u>\$ 3,784,460</u>	<u>\$ 3,784,460</u>	<u>\$ -</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
 RETAINED EARNINGS – PROPRIETARY FUND TYPE
 FOR THE YEAR ENDED JUNE 30, 2003

	Internal Service
Operating Revenues	
Charges for Services	\$ 651,338
<i>Total Operating Revenues</i>	651,338
 Operating Expenses	
Fringe Benefits	36,082
Purchased Services	55,605
Claims	449,700
<i>Total Operating Expenses</i>	541,387
 <i>Operating Income</i>	109,951
 Non-Operating Revenues	
Interest	13,543
<i>Total Non-Operating Revenues</i>	13,543
 <i>Net Income</i>	123,494
 <i>Retained Earnings at Beginning of Year, as restated</i>	205,092
<i>Retained Earnings at End of Year</i>	\$ 328,586

The accompanying notes are an integral part of these financial statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 COMBINED STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPE
 FOR THE YEAR ENDED JUNE 30, 2003

	<u>Internal Service</u>
INCREASE IN CASH AND CASH EQUIVALENTS	
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 651,338
Cash Payments for Claims	(404,937)
Cash Payments to Suppliers for Goods and Services	(91,689)
<i>Net Cash Provided by Operating Activities</i>	154,712
Cash Flows from Investing Activities	
Interest on Investments	13,543
<i>Net Cash Provided by Investing Activities</i>	13,543
<i>Net Increase in Cash and Cash Equivalents</i>	168,255
<i>Cash and Cash Equivalents at Beginning of Year</i>	312,431
<i>Cash and Cash Equivalents at End of Year</i>	\$ 480,686
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
<i>Operating Income</i>	\$ 109,951
<i>Adjustments:</i>	
<i>Changes in Liabilities:</i>	
Increase in Claims Payable	44,761
<i>Total Adjustments</i>	44,761
<i>Net Cash Provided by Operating Activities</i>	\$ 154,712

The accompanying notes are an integral part of these financial statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 STATEMENT OF CHANGES IN NET ASSETS
 FIDUCIARY FUND TYPE
 FOR THE YEAR ENDED JUNE 30, 2003

	External Investment Trust
Revenues	
Interest	\$ 35,732
Expenses	
Operating Expenses	-
<i>Net Increase in Assets Resulting from Operations</i>	35,732
Distribution to Participants	(35,732)
Capital Transactions	(127,276)
<i>Total Decrease in Net Assets</i>	(127,276)
<i>Net Assets at Beginning of Year</i>	1,948,344
<i>Net Assets at End of Year</i>	\$ 1,821,068

The accompanying notes are an integral part of these financial statements.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

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 27,785 students in local, city and exempted village school districts in Lorain County.

Reporting Entity

For financial reporting purposes, the reporting entity is defined to include the primary government, component units, and other organizations consistent with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity," that are included to insure that the general purpose financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from 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 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 financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Educational Service Center's accounting policies are described below.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

A. Basis Of Presentation - Fund Accounting

The Educational Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial 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 recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories governmental and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. The acquisition, use and balances of the Educational Service Center's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the Educational Service Center's governmental fund types:

General Fund - The general fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Proprietary Fund Type:

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Allocations of costs, such as depreciation, are recognized in the proprietary funds. As permitted, the Educational Service Center has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations. Proprietary funds include the following fund type:

Internal Service Fund - Used to account for the financing of goods or services provided by one department or agency to governmental units, on a cost-reimbursement basis.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust and agency funds. The Educational Service Center has an investment trust fund which is accounted for using the accrual basis of accounting. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the Educational Service Center.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and 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. The available period for the Educational Service Center is sixty days after year end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. 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 non-exchange transactions must also be available before it can be recognized.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, customer services and grants.

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 the governmental funds.

The investment trust fund reports transactions and balances using the economic resources measurement and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund is included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

C. Budgetary Data

The budgetary process for the Educational Service Center is prescribed by section 3317.11 of the Ohio Revised Code. Annually, on or before a date designated by the State Board of Education, each Educational Service Center prepares a budget of operating expenses for the ensuing year on forms prepared and furnished by the State Board of Education and certifies the budget to the State Board of Education, together with such other information as the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. The State Board of Education reviews the budget.

Estimated Revenues:

After the start of the fiscal year, estimated resources are revised to include any unencumbered balance from the preceding fiscal year. The revised estimated resources represents the maximum amount that may be appropriated from each fund. Estimated resources may be further amended during the year as projected increases and decreases in revenue are identified by the Treasurer or additional grant programs are approved by the Board. The amounts reported in the budgetary statements reflect the final approved estimated resources of the Educational Service Center.

Appropriations:

The annual appropriation resolution must be legally enacted by the Governing Board at the fund level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Governing Board. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Board of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of moneys are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental fund types.

Lapsing of Appropriations:

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

D. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled in a central bank account. Moneys 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 funds interest is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2003, 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 2003. 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, 2003.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2003, the general fund received interest earned in the amount of \$153,718.

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.

E. Inventory

Inventories are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available spendable resources even though it is a component of net current assets. The inventory balance at June 30, 2003 was not significant.

F. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. The Educational Service Center maintains a capitalization threshold of \$2,400. The Educational Service Center does not possess any infrastructure. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received.

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. Improvements are capitalized. Assets in the general fixed assets account group are not depreciated.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

G. Pass-Through Grants

The Educational Service Center is the primary recipient of grants which are passed-through to or spent on the behalf of school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the Educational Service Center has no financial or administrative role and are passed-through to the school district's are reported in an agency fund.

H. Interfund Assets/Liabilities

Short-term interfund loans are classified as Interfund Receivables/Payables.

I. Compensated Absences

The liability for compensated absences is based on the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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 vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, contractually required pension contributions, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. Capital leases are reported as a liability of the general long-term obligations account group until due or until resources have been accumulated in the fund for payment early in the following year.

K. Interfund Transactions

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

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

L. 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. The Educational Service Center was not required to set aside any reserves required by House Bill 412.

M. Estimates

The preparation of financial statements in conformity with generally accepted 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.

N. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 3 - Restatement of Prior Year Balances

The threshold amount determined to track general fixed asset has been increased from \$500 to \$2,400. Due to the increased threshold, the general fixed assets balance at the beginning of the year decreased by \$295,662 from \$769,815 to \$474,153.

After evaluating the Educational Service Center's retention of risk associated with the Lake Erie Regional Council of Governments (LERC) membership, it has been determined that the Educational Service Center should report a self insurance internal service fund. The self insurance internal service retained earnings at the beginning of the year is \$205,092.

In the prior year self insurance activity was recorded in the general fund which is now reported in a self insurance internal service fund. As a result, the fund balance of the general fund has been restated by \$139,073, a decrease from \$3,576,091 to \$3,437,018.

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 is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

	<u>General</u>	<u>Special Revenue</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types</i>		
<i>GAAP Basis</i>	(\$171,285)	\$163,593
Net Adjustments for Revenue Accruals	33,501	15,999
Advance In	16,500	27,850
Net Adjustments for Expenditure Accruals	145,184	73,908
Advance Out	(29,650)	0
Adjustment for Encumbrances	<u>(268,253)</u>	<u>(173,425)</u>
<i>Budget Basis</i>	<u><u>(\$274,003)</u></u>	<u><u>\$107,925</u></u>

Note 5 - Deposits and Investments

State statutes require the classification of moneys 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 two year period of designation of depositories. Inactive moneys must be deposited or invested as certificates of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

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

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.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

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 two 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 Treasurer's Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$4,692,103 and the bank balance was \$5,076,074. \$2,961,000 was covered by federal depository insurance and \$2,115,746 was uninsured and uncollateralized. 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.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

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 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 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 investment in STAR Ohio is not classified by degree of credit risk since these investments are not evidenced by securities that exist in physical or book entry form.

	<i>Category 3</i>	<i>Fair Market Value</i>
Federal Home Loan Bank	\$2,572,898	\$2,572,898
Federal Home Loan Mortgage	1,532,712	1,532,712
Federal National Mortgage Association	2,101,619	2,101,619
Repurchase Agreements	660,000	660,000
STAR Ohio	0	210,185
<i>Total Investments</i>	\$6,867,229	\$7,077,414

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>	\$11,769,517	\$0
Investments which are part of the cash management pool:		
Federal Home Loan Bank	(2,572,898)	2,572,898
Federal Home Loan Mortgage	(1,532,712)	1,532,712
Federal National Mortgage Association	(2,101,619)	2,101,619
Repurchase Agreements	(660,000)	660,000
STAR Ohio	(210,185)	210,185
<i>GASB Statement No. 3</i>	\$4,692,103	\$7,077,414

Note 6 - Receivables

Receivables at June 30, 2003 consisted of accounts and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

<i>Intergovernmental Receivables</i>	<u><i>Amounts</i></u>
<i>General Fund:</i>	
Intergovernmental	\$417,167
<i>Total General Fund</i>	<u>417,167</u>
 <i>Special Revenue Funds</i>	
Other Federal Grants	5,416
Public Preschool	81,221
Early Childhood	25,617
Title I	<u>35,541</u>
<i>Total Special Revenue Funds</i>	<u>147,795</u>
 <i>SERRC Agency Fund</i>	
	<u>80,526</u>
 <i>Total Intergovernmental Receivables</i>	 <u><u>\$645,488</u></u>

Note 7 - 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, 2003

Assets

Equity in Pooled Cash and Cash Equivalents	\$6,392,725
Interest Receivable	27,582
<i>Total Assets</i>	<u><u>\$6,420,307</u></u>

Net Asset Held in Trust for Pool Participants

Internal Portion	\$4,599,239
External Portion	1,821,068
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u><u>\$6,420,307</u></u>

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

*Statement of Changes in Net Assets
For Fiscal Year Ended June 30, 2003*

Revenues	
Interest	\$189,450
Expenses	
Operating Expenses	0
<i>Net Increase in Assets Resulting from Operations</i>	189,450
Distribution to Participants	(207,492)
Capital Transactions	371,163
<i>Total Increase in Net Assets</i>	353,121
<i>Net Assets Beginning of Year</i>	6,067,186
<i>Net Assets End of Year</i>	\$6,420,307

Note 8 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of Part (A) of the budget. (For an explanation of the budget, see note 2 - Budgetary Data.)

Part (B) of the budget is funded in the following way: \$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 school districts to which the Educational Service Center provides services from payments made under the State's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the Educational Service Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

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.

Educational Service Center of Lorain County
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June 30, 2003

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 2003.

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

A. Risk Sharing Pools

Liability insurance is purchased through the Ohio School's Plan. The program is a shared risk pool comprised of over four hundred school districts and other government entities located in Ohio and the Educational Service Center. Rates are set annually following an independent review and calculation process. The Educational Service Center pays a yearly contribution which is placed in a common fund from which claim payments are made for all participating members. Claims are paid for all participants regardless of claim flow. Upon termination, all the Educational Service Center claims would be paid without regard to the Educational Service Center's account balance. Financial information can be obtained by writing the Ohio School Plan, Harcum-Hyre Insurance Agency, 246-250 Sycamore, Columbus, Ohio 43206

B. Claims Servicing Pool

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

Note 11- Fixed Assets

A summary of the changes in general fixed assets during fiscal year 2003 follows:

	<i>Balance</i>			
	<i>June 30, 2002</i>			<i>Balance</i>
	<u><i>As Restated</i></u>	<u><i>Additions</i></u>	<u><i>Deletions</i></u>	<u><i>June 30, 2003</i></u>
Land	\$0	\$50,000	\$0	\$50,000
Buildings & Improvements	122,388	208,623	0	331,011
Vehicles	0	22,229	0	22,229
Furniture and Equipment	<u>351,765</u>	<u>16,789</u>	<u>(26,896)</u>	<u>341,658</u>
Total Fixed Assets	<u>\$474,153</u>	<u>\$297,641</u>	<u>(\$26,896)</u>	<u>\$744,898</u>

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

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 2003, the Educational Service Center contracted with Ohio School Plan, a risk sharing pool (Note 10), for general liability insurance. Leased vehicles are covered by Nationwide Insurance and 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 Ohio School Plan with a \$3,000,000 annual aggregate \$1,000,000 single occurrence limit and a \$1,000 deductible.

For fiscal year 2003, 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 \$152,100 reported in the internal service fund at June 30, 2003 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. Change in claims activity for 2002 is not available. Changes in claims activity for the past fiscal year is as follows:

	<i>Balance at Beginning of Year</i>	<i>Current Year Claims</i>	<i>Claims Payments</i>	<i>Balance at End of Year</i>
2003	\$107,338	\$449,700	\$404,938	\$152,100

Note 13 - Defined Benefit Pension Plans

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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Educational Service Center of Lorain County
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June 30, 2003

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 5.46 percent. The contribution requirements of plan members and employees are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the years ending June 30, 2003, 2002, and 2001 were \$273,908, \$245,636, and \$231,469, respectively. 100 percent was contributed for fiscal years 2003, 2002 and 2001.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and 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, 2003, plan members are required to contribute 9.3 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. For the fiscal year ended June 30, 2002, 9.5 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, 2003, 2002, and 2001 were \$538,616, \$401,127, and \$423,457, respectively, equal to the required contributions for each year. 100 percent of the STRS contributions has been contributed for all three fiscal years.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements

June 30, 2003

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose social security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, four of the board members have elected social security. The Educational Service Center's liability is 6.2 percent of the wages paid to these board members.

Note 14 - Postemployment 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-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients 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 is included in the employer contribution rate, currently 14 percent of covered payroll. The STRS board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$34,693, for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 million at June 30, 2002 (the latest information available). For the year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the Educational Service Center, the amount contributed to fund health care benefits, including surcharge, equaled \$168,259, during the 2003 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002 (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participating currently receiving health care benefits.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
 June 30, 2003

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 10 to 30 days of vacation per year, depending upon length of service. Accumulated unused vacation time (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 a maximum of 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 the Ohio Educational Employees Life Insurance Trust in an amount equal to one and one half times the employee's salary rounded to the nearest \$500.

Note 16 - Operating Lease

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

<i>Year Ending June 30,</i>	<i>Amount</i>
2004	\$30,815
2005	25,392
2006	24,312
2007	24,312
2008	8,910
<i>Total Minimum Lease Payments</i>	\$113,741

Note 17 - Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2003 were as follows:

	<i>Principal Outstanding 6/30/02</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding 6/30/03</i>
<i>Intergovernmental Payables</i>	\$1,573	\$3,701	\$1,573	\$3,701
<i>Compensated Absences</i>	360,034	30,341	0	390,375
<i>Total General Long-Term Obligations</i>	\$361,607	\$34,042	\$1,573	\$394,076

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
June 30, 2003

Compensated absences and intergovernmental payable, which represents contractually required pension contributions paid outside the available period, will be paid from the fund from which the employee's are paid.

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, 2003.

B. Litigation

The Educational Service Center is party to legal proceedings. The Educational Service Center management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the Educational Service Center.

Note 19 - School Funding Issue

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

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

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

Note 20 - Interfund Transactions

On the combined balance sheet the general fund reported an interfund receivable at June 30, 2003, of \$29,650. The SERRC agency fund reported an interfund payable for \$1,800, the Title I special revenue fund reported an interfund payable for \$20,950 and the Handicapped Preschool reported and interfund payable of \$6,900.

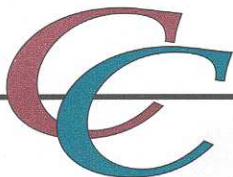
An operating transfer of \$69,617 was made from the general fund to Special Educational Regional Resource Center (SERRC), an agency fund. Agency funds are custodial in nature and do not involve measurement of the results of operations. Therefore, operating transfers-out do not agree to operating transfers-in.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

SUPPLEMENTAL AUDITOR'S REPORTS

JUNE 30, 2003

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, 2003



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
Elyria, Ohio

We have audited the general purpose financial statements of the Educational Service Center of Lorain County (Service Center), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 19, 2003. 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 general purpose 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 Governmental 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 opinion on the general purpose 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 general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Service Center in a separate letter dated December 19, 2003.

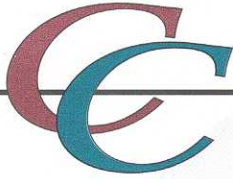
This report is intended solely for the information and use of management, Governing Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

December 19, 2003

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, 2003



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
Elyria, 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, 2003. The Service Center's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Governmental 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 legal determination on the Service Center's compliance with those requirements.

In our opinion, the Service Center, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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 and operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the 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.

December 19, 2003

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2003

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 §.505
 JUNE 30, 2003

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)(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)(vii)	Dollar Threshold: Type A/B Programs	Type A: >. \$ 300,000 Type B: > \$ 100,000
(d)(1)(viii)	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 OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2003

	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I	84.010	C1-SS-02P	\$ 3,356	\$ 5,156
Title I	84.010	C1-SD-03	92,257	33,088
Title I	84.010	C1-AF-03P	90,537	78,038
Title I	84.010	C1-AF-02P	23,333	26,634
Title I	84.010	C1-SD-02	10,545	14,546
Title I	84.010	C1-SD-01	-	33,713
Total Title I			<u>220,028</u>	<u>191,175</u>
Special Education Cluster:				
IDEA Part B	84.027	6B-S1-02P	227,186	246,903
IDEA Part B	84.027	SE-S1-03P	809,130	746,704
IDEA Part B	84.027	6B-AA-03P	25,860	20,395
Total IDEA Part B			<u>1,062,176</u>	<u>1,014,002</u>
Preschool				
Preschool	84.173	PG-S7-02P	-	2,182
Preschool	84.173	PG-S1-02P	19,792	29,105
Preschool	84.173	PG-S1-03P	23,879	26,275
Total Preschool			<u>43,671</u>	<u>57,562</u>
Total Special Education Cluster:				
			<u>1,105,847</u>	<u>1,071,564</u>
Education for the Homeless Children and Youth				
Education for the Homeless Children and Youth	84.196	C1-HC-03	28,187	4,489
Education for the Homeless Children and Youth	84.196	HC-S1-02	-	38,534
Education for the Homeless Children and Youth	84.196	HC-S1-01	-	6,803
Total Education for the Homeless Children and Youth			<u>28,187</u>	<u>49,826</u>
Goals 2000				
Goals 2000	84.276	G2-S3-01	-	600
Medical Assistance Program				
Medical Assistance Program	93.778		18,859	4,896
Medical Assistance Program	93.778		10,062	2,815
Total Medical Assistance Program			<u>28,921</u>	<u>7,711</u>
Subtotal - Passed through State Department of Education			<u>1,382,983</u>	<u>1,320,876</u>
Total U.S. Department of Education			<u>1,382,983</u>	<u>1,320,876</u>
<u>Corp. for Community and National Service</u>				
Passed through the State of Ohio				
Learn and Serve	94.004	SV-S1-03	15,000	10,788
Learn and Serve	94.004	SV-S2-03	3,000	1,823
Learn and Serve	94.004	SV-S4-02	-	2,728
Total Learn and Serve			<u>18,000</u>	<u>15,339</u>
Total Corp. for Community and National Service			<u>18,000</u>	<u>15,339</u>
Subtotal - Passed through the State of Ohio			<u>18,000</u>	<u>15,339</u>
Total Federal Assistance			<u>\$ 1,400,983</u>	<u>\$ 1,336,215</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2003

NOTE A. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Educational Service Center 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 State, 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 general purpose financial statements, which are presented on the modified accrual basis.

NOTE B. FISCAL AGENT

The Educational Service Center is the fiscal agent of the Northern Ohio Special Education Regional Resource Center, which is the grantee of the major federal program.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

LORAIN COUNTY EDUCATIONAL SERVICE CENTER

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
MARCH 4, 2004**