



**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	11
Notes to the Basic Financial Statements.....	21
Schedule of Federal Awards Expenditures	43
Notes to the Schedule of Federal Awards Expenditures.....	44
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	45
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i> ..	47
Schedule of Findings	49

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga County Educational Service Center, Cuyahoga County, Ohio, (the Service Center) as of and for the year ended June 30, 2005, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 Cuyahoga County Educational Service Center, Cuyahoga County, Ohio, as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Title VI-B funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

February 21, 2006

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

The management's discussion and analysis of Cuyahoga County Educational Service Center's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2005. The intent of the management's discussion and analysis is to look at the Service Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for 2005 include:

- Total assets increased by \$4,763,355, offset by a \$1,174,459 decrease in liabilities over fiscal year 2004. This resulted in an overall increase in net assets of \$5,937,814.
- Total revenues of \$61,898,814 were comprised of general revenues in the amount of \$2,701,639 and program specific revenues from charges for services and operating grants and contributions in the amount of \$59,197,175.
- Total revenues increased by \$2,181,965, or 3.65 percent, over fiscal year 2004. This included a \$1,783,575 increase in program revenues and a \$398,390 increase in general revenues.
- Total program expenses decreased by \$3,174,663, or 5.37 percent, over fiscal year 2004.
- Total cost of services decreased by \$3,174,663, or 5.37 percent over fiscal year 2004, and net cost of services decreased \$4,958,238 from fiscal year 2004.
- Total capital assets increased \$1,009,049 over fiscal year 2004, mainly due to the purchase of the land, the current year improvements and the construction in progress for the updates to the buildings purchased in fiscal year 2004.

Using this Annual Financial Report

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

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

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

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

Reporting the Service Center as a Whole (district wide)

Statement of Net Assets and the Statement of Activities

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

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

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

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

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

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

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

The Service Center as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the Service Center as a whole. Table 1 provides a summary of the Service Center's net assets for 2005 compared to 2004:

(Table 1)
Net Assets

	Governmental Activities		Change
	2005	2004	
Assets			
Current and Other Assets	\$27,352,863	\$23,598,557	\$3,754,306
Capital Assets, Net	3,645,770	2,636,721	1,009,049
<i>Total Assets</i>	<u>30,998,633</u>	<u>26,235,278</u>	<u>4,763,355</u>
Liabilities			
Current and Other Liabilities	5,200,414	6,307,023	(1,106,609)
Long-Term Liabilities:			
Due Within One Year	790,382	856,449	(66,067)
Due in More than One Year	334,788	336,571	(1,783)
<i>Total Liabilities</i>	<u>6,325,584</u>	<u>7,500,043</u>	<u>(1,174,459)</u>
Net Assets			
Invested in Capital Assets	3,645,770	2,636,721	1,009,049
Restricted	2,032,596	711,342	1,321,254
Unrestricted	18,994,683	15,387,172	3,607,511
<i>Total Net Assets</i>	<u>\$24,673,049</u>	<u>\$18,735,235</u>	<u>\$5,937,814</u>

Total assets increased mainly due to the additional cash available at the end of the fiscal year and the increase in grant funding received by the Service Center. Collection of accounts receivable were noticeably higher in the current year over the previous period. School district payments are erratic. The Service Center began renovations of the property purchased in the previous year. The renovation program is a phased outlay designed to bring together the data center, special education regional resource center, praxis III school improvement services and other programs to a campus environment. Operational efficiencies and coordination of services is the primary goal.

Liabilities decreased as a result of an overall decrease in spending on program activities and salaries due to retirements and terminations. Also, the Service Center is phasing out the auxiliary services programs and services previously offered to the parochial schools in the area. The Service Center has determined it can no longer provide such services without incurring losses.

The net effect of the increase to assets and the decrease to liabilities resulted in an increase of total net assets of \$5,937,814 over fiscal year 2004.

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

Table 2 shows the change in net assets for fiscal year 2005 as compared to fiscal year 2004.

(Table 2)
Change in Net Assets
Governmental Activities

	2005	2004
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$48,562,329	\$48,260,149
Operating Grants and Contributions	10,634,846	9,153,451
<i>Total Program Revenues</i>	<u>59,197,175</u>	<u>57,413,600</u>
<i>General Revenues:</i>		
Grants and Entitlements	2,162,432	2,072,784
Interest	311,624	171,477
Miscellaneous	227,583	58,988
<i>Total General Revenues</i>	<u>2,701,639</u>	<u>2,303,249</u>
Total Revenues	<u>61,898,814</u>	<u>59,716,849</u>
Program Expenses		
Instruction	23,638,056	24,268,765
Support Services:		
Pupil and Instructional Staff	17,511,745	21,019,399
Board of Education, Administration, Fiscal and Business	10,452,901	9,484,801
Operation and Maintenance of Plant	1,233,558	308,165
Pupil Transportation	6,691	6,190
Central	227,713	45,757
Operation of Noninstructional Services	2,887,956	3,999,567
Extracurricular Activities	2,380	3,019
<i>Total Program Expenses</i>	<u>55,961,000</u>	<u>59,135,663</u>
Increase in Net Assets	5,937,814	581,186
<i>Net Assets Beginning of Year</i>	<u>18,735,235</u>	<u>18,154,049</u>
<i>Net Assets End of Year</i>	<u>\$24,673,049</u>	<u>\$18,735,235</u>

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

Program revenues increased by \$1,783,575 due to an increase in costs for tuition and service fees and an increase in the number of students served during the year. Collection of outstanding tuition from prior fiscal years also increased revenues. General revenues increased by \$398,390 due to more interest and miscellaneous revenues received.

Program expenses decreased by \$3,174,663 due to less instructional and service expenses. Reduced staffing and the phase out of the auxiliary services program provided the largest decrease. Increased administrative expenses were due to pay raises and health care costs. Maintenance expenses increased mainly due to the additional service contracts purchased in fiscal year 2004 and due to basic building maintenance/repairs, such as to the heating system.

Governmental Activities

A review of Table 2 illustrates the concept of sound fiscal management in the government sector. The Service Center's concept of bringing its fiscal agencies under a common campus to align services share resources and create economies of scale are beginning to take hold. A willingness to honestly assess programs and discontinue unprofitable ones is key to long term operations. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for governmental activities. Table 3 shows the total cost of services and the net cost of services. The \$3,236,175 *Net Cost of Services 2005* tells the reader that overall these services are self-supporting and did not have to rely on unrestricted State entitlements and unrestricted net assets to operate this fiscal year.

(Table 3)
Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Instruction	\$23,638,056	\$5,167,689	\$24,268,765	\$3,376,519
Support Services:				
Pupil and Instructional Staff	17,511,745	(1,366,079)	21,019,399	(6,454,914)
Board of Education, Administration, Fiscal and Business	10,452,901	(156,050)	9,484,801	(36,641)
Operation and Maintenance of Plant	1,233,558	(486,485)	308,165	389,828
Pupil Transportation	6,691	(6,691)	6,190	19,110
Central	227,713	(206,685)	45,757	39,183
Operation of Non-Instructional Services	2,887,956	292,856	3,999,567	947,871
Extracurricular Activities	2,380	(2,380)	3,019	(3,019)
<i>Totals</i>	<u>\$55,961,000</u>	<u>\$3,236,175</u>	<u>\$59,135,663</u>	<u>(\$1,722,063)</u>

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

The Service Center's Funds

Information about the Service Center's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$61,652,285 and total expenditures of \$57,471,486, leaving a fund balance at fiscal year-end of \$18,776,319.

The net change in fund balance for the year was most significant in the general fund with an increase of \$3,954,603 and an increase of \$474,081 in the Title VI-B special revenue fund. The net result of all funds is an increase of \$4,180,799 resulting from the timing of revenues received in the available period and the decrease in overall expenditures.

The general fund had total revenues of \$52,343,211, comprised mostly of tuition and fees of \$34,454,793 or 65.82 percent and charges for services of \$14,219,870 or 27.17 percent. The remaining 7.01 percent was for intergovernmental revenues, interest, rentals from the new buildings, contributions and miscellaneous revenues. The total expenditures were \$48,388,608, with \$21,194,660 or 43.80 percent for instructional services and \$24,217,979 or 50.05 percent for support and administrative services. The remaining 6.15 percent represent services/activities outside of the various school districts serviced by the Service Center. The net effect of the slight increase in revenues and the \$4,600,906 decrease in expenditures, leaves the general fund with a \$18,464,653 fund balance for fiscal year 2005, a \$3,954,603 increase over fiscal year 2004.

The Title VI-B special revenue fund had total revenues of \$2,458,752. The entire amount of intergovernmental revenues is used to provide services and programs for handicapped students throughout the school districts serviced by the Service Center. Total expenditures to provide the instructional, support, administrative and non-instructional services were \$1,984,671. The net effect of the revenues received and the expenditures incurred leaves the Title VI-B special revenue fund with a \$552,566 fund balance for fiscal year 2005, a \$474,081 increase over fiscal year 2004.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the Service Center amended its general fund budget a few times. Many of the amendments are due to changes in program attendance, client-district needs and capital improvement decisions. The general fund is often called upon to advance funds to one project or another. During the course of the fiscal year, several federal and state grants will surface or material changes in existing ones will require budgetary action.

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

For the general fund, the final budget basis revenue estimate was \$53,707,706; this was below the original budget estimates of \$55,668,215. The main difference between the original and final estimates was due to an increase in tuition and fees and a decrease in charges for services and intergovernmental revenues used to fund the various services provided to the participating school districts. The final budget basis expenditures estimate totaled \$49,727,754; this was below the original budget estimates of \$54,529,512. The decrease in expenditures was a result of a decreased revenue estimate. For fiscal year 2005, the services provided to the participating school districts and staff wages and benefits costs were \$2,839,883 lower than fiscal year 2004.

Capital Assets

During fiscal year 2005, the Service Center purchased a used vehicle, copiers and computers to replace outdated equipment and began major renovations to the buildings purchased in fiscal year 2004. At the end of fiscal year 2005, the Service Center had \$3,645,770 invested in land, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004. More detailed information is presented in Note 11 of the notes to the basic financial statements.

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

	Governmental Activities	
	2005	2004
Land	\$521,075	\$390,975
Construction in Progress	134,573	0
Buildings and Improvements	2,786,862	2,097,980
Furniture and Equipment	196,039	147,766
Vehicles	7,221	0
<i>Total Capital Assets</i>	<u>\$3,645,770</u>	<u>\$2,636,721</u>

Current Financial Related Activities

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

During fiscal year 2004, the Service Center purchased an office building located at 5811 Canal Road as well as its original location of 5700 West Canal Road. This enables the Service Center to expand its services and have more room in a campus-like setting to meet the varying needs of its clients. After renovating office space in the new property, the Service Center moved in the fall of 2004. During fiscal year 2005, additional renovations were completed so the Cuyahoga Special Education Service Center could relocate to the new Canal Road building. They moved in the late summer of 2005. A third building

Cuyahoga County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

was acquired during 2005 so the Service Center could provide for conferences and meetings accommodating up to 250 people. Public bids were scheduled for the summer of 2005 and renovations to the 5700 W. Canal Road property and improvements to the Canal Road building began in late summer and will continue until the end of 2005. Lakeshore Northeast Ohio Computer Association's long term home will be in the 5700 West Canal property. The improvements are designed to better provide services to its member school districts. Again, the theme of a common campus to share resources and align services by having the providers under an umbrella will shape the quality of education in the region. All fiscal agencies will pay rent and the properties will be managed by a third party professional real estate group.

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

Contacting the Service Center's Financial Management

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

Cuyahoga County Educational Service Center

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$14,323,057
Accrued Interest Receivable	68,691
Accounts Receivable	116,672
Intergovernmental Receivable	12,340,802
Prepaid Items	503,641
Nondepreciable Capital Assets	655,648
Depreciable Capital Assets, Net	<u>2,990,122</u>
<i>Total Assets</i>	<u>30,998,633</u>
Liabilities	
Accounts Payable	349,762
Accrued Wages and Benefits	3,859,655
Intergovernmental Payable	951,437
Retainage Payable	39,560
Long-Term Liabilities:	
Due Within One Year	790,382
Due In More Than One Year	<u>334,788</u>
<i>Total Liabilities</i>	<u>6,325,584</u>
Net Assets	
Invested in Capital Assets	3,645,770
Restricted for:	
Title VI-B	1,322,938
Professional Development	301,862
Peer Assistance	259,962
Other Purposes	147,834
Unrestricted	<u>18,994,683</u>
<i>Total Net Assets</i>	<u><u>\$24,673,049</u></u>

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$2,193,835	\$466,031	\$2,020,947	\$293,143
Special	20,667,546	24,780,962	770,968	4,884,384
Vocational	222,313	215,715	0	(6,598)
Adult/Continuing	554,362	0	551,122	(3,240)
Support Services:				
Pupil	6,359,375	3,258,613	3,012,541	(88,221)
Instructional Staff	11,152,370	9,674,483	200,029	(1,277,858)
Board of Education	73,927	0	0	(73,927)
Administration	9,846,579	6,616,158	2,829,380	(401,041)
Fiscal	532,395	582,445	268,868	318,918
Operation and Maintenance of Plant	1,233,558	465,938	281,135	(486,485)
Pupil Transportation	6,691	0	0	(6,691)
Central	227,713	14,915	6,113	(206,685)
Operation of Non-Instructional Services	2,887,956	2,487,069	693,743	292,856
Extracurricular Activities	2,380	0	0	(2,380)
<i>Totals</i>	<u>\$55,961,000</u>	<u>\$48,562,329</u>	<u>\$10,634,846</u>	<u>3,236,175</u>
General Revenues				
				2,162,432
				311,624
				227,583
				<u>2,701,639</u>
				5,937,814
				<u>18,735,235</u>
				<u>\$24,673,049</u>

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

*Balance Sheet
Governmental Funds
June 30, 2005*

	General	Title VI-B	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$12,788,230	\$714,560	\$820,267	\$14,323,057
Receivables:				
Accrued Interest	68,691	0	0	68,691
Accounts	104,606	0	12,066	116,672
Intergovernmental	10,878,501	828,602	633,699	12,340,802
Interfund Receivable	1,290,900	0	0	1,290,900
Prepaid Items	468,216	13,803	21,622	503,641
<i>Total Assets</i>	<u>\$25,599,144</u>	<u>\$1,556,965</u>	<u>\$1,487,654</u>	<u>\$28,643,763</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$243,096	\$28,312	\$78,354	\$349,762
Accrued Wages and Benefits	3,543,861	137,363	178,431	3,859,655
Intergovernmental Payable	899,821	10,122	41,494	951,437
Retainage Payable	39,560	0	0	39,560
Interfund Payable	0	0	1,290,900	1,290,900
Deferred Revenue	2,408,153	828,602	139,375	3,376,130
<i>Total Liabilities</i>	<u>7,134,491</u>	<u>1,004,399</u>	<u>1,728,554</u>	<u>9,867,444</u>
Fund Balances (Deficit)				
Reserved for Encumbrances	282,114	61,660	66,623	410,397
Unreserved, Undesignated				
Reported in:				
General Fund	18,182,539	0	0	18,182,539
Special Revenue Funds (Deficit)	0	490,906	(307,523)	183,383
<i>Total Fund Balances (Deficit)</i>	<u>18,464,653</u>	<u>552,566</u>	<u>(240,900)</u>	<u>18,776,319</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$25,599,144</u>	<u>\$1,556,965</u>	<u>\$1,487,654</u>	<u>\$28,643,763</u>

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005*

Total Governmental Fund Balances	\$18,776,319
 <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	3,645,770
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Tuition and Fees	2,377,160
Charges for Services	38,892
Grants	<u>960,078</u>
Total	3,376,130
Long-term compensated absences liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,125,170)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$24,673,049</u></u>

Cuyahoga County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Title VI-B	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$2,803,403	\$2,458,752	\$6,801,455	\$12,063,610
Interest	311,624	0	0	311,624
Tuition and Fees	34,454,793	0	0	34,454,793
Rentals	322,128	0	0	322,128
Charges for Services	14,219,870	0	48,867	14,268,737
Contributions and Donations	3,193	0	0	3,193
Miscellaneous	228,200	0	0	228,200
<i>Total Revenues</i>	<u>52,343,211</u>	<u>2,458,752</u>	<u>6,850,322</u>	<u>61,652,285</u>
Expenditures				
Current:				
Instruction:				
Regular	248,572	42,977	1,879,858	2,171,407
Special	20,723,131	0	101,598	20,824,729
Vocational	222,957	0	0	222,957
Adult/Continuing	0	0	554,386	554,386
Support Services:				
Pupil	4,338,642	398,591	1,646,121	6,383,354
Instructional Staff	11,165,488	0	168,358	11,333,846
Board of Education	73,927	0	0	73,927
Administration	6,792,030	1,277,725	1,989,781	10,059,536
Fiscal	326,169	42,431	164,664	533,264
Operation and Maintenance of Plant	1,358,411	214,602	9,964	1,582,977
Pupil Transportation	2,380	0	4,311	6,691
Central	160,932	0	88,362	249,294
Operation of Non-Instructional Services	2,489,987	8,345	490,804	2,989,136
Extracurricular Activities	2,380	0	0	2,380
Capital Outlay	483,602	0	0	483,602
<i>Total Expenditures</i>	<u>48,388,608</u>	<u>1,984,671</u>	<u>7,098,207</u>	<u>57,471,486</u>
<i>Net Change in Fund Balances</i>	3,954,603	474,081	(247,885)	4,180,799
<i>Fund Balances Beginning of Year</i>	<u>14,510,050</u>	<u>78,485</u>	<u>6,985</u>	<u>14,595,520</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$18,464,653</u>	<u>\$552,566</u>	<u>(\$240,900)</u>	<u>\$18,776,319</u>

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds \$4,180,799

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Asset Additions	1,146,358	
Current Year Depreciation	(129,614)	
Total		1,016,744

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (7,695)

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

Tuition and Fees	(391,862)	
Charges for Services	(91,467)	
Grants	730,475	
Miscellaneous	(617)	
Total		246,529

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

Compensated Absences	(202,222)	
Pension Obligation	703,659	
Total		501,437

Change in Net Assets of Governmental Activities \$5,937,814

Cuyahoga County Educational Service Center
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$3,785,174	\$2,666,468	\$2,666,468	\$0
Interest	301,870	259,599	259,599	0
Tuition and Fees	34,619,075	35,593,028	35,593,028	0
Rentals	374,580	322,128	322,128	0
Charges for Services	16,355,603	14,635,090	14,635,090	0
Contributions and Donations	3,713	3,193	3,193	0
Miscellaneous	228,200	228,200	228,200	0
<i>Total Revenues</i>	<u>55,668,215</u>	<u>53,707,706</u>	<u>53,707,706</u>	<u>0</u>
Expenditures				
Current:				
Instruction:				
Regular	235,820	216,080	216,080	0
Special	23,006,109	21,035,783	21,035,783	0
Vocational	243,651	222,784	222,784	0
Support Services:				
Pupil	5,290,788	4,837,209	4,837,209	0
Instructional Staff	12,063,081	11,029,955	11,029,955	0
Board of Education	81,639	74,647	74,647	0
Administration	8,208,697	7,374,132	7,374,132	0
Fiscal	457,680	418,372	418,372	0
Operation and Maintenance of Plant	1,461,768	1,336,577	1,336,577	0
Pupil Transportation	5,648	5,164	5,164	0
Central	176,006	160,932	160,932	0
Operation of Non-Instructional Services	2,767,123	2,530,137	2,530,137	0
Extracurricular Activities	2,603	2,380	2,380	0
Capital Outlay	528,899	483,602	483,602	0
<i>Total Expenditures</i>	<u>54,529,512</u>	<u>49,727,754</u>	<u>49,727,754</u>	<u>0</u>
<i>Excess of Revenues Over Expenditures</i>	<u>1,138,703</u>	<u>3,979,952</u>	<u>3,979,952</u>	<u>0</u>
Other Financing Sources (Uses)				
Advances In	887,000	887,000	887,000	0
Advances Out	(2,409,893)	(1,290,900)	(1,290,900)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,522,893)</u>	<u>(403,900)</u>	<u>(403,900)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(384,190)	3,576,052	3,576,052	0
<i>Fund Balance Beginning of Year</i>	8,075,908	8,075,908	8,075,908	0
Prior Year Encumbrances Appropriated	405,497	405,497	405,497	0
<i>Fund Balance End of Year</i>	<u><u>\$8,097,215</u></u>	<u><u>\$12,057,457</u></u>	<u><u>\$12,057,457</u></u>	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Title VI-B Fund
For the Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Intergovernmental	<u>\$2,580,000</u>	<u>\$2,458,752</u>	<u>\$2,458,752</u>	<u>\$0</u>
Expenditures				
Current:				
Instruction:				
Special	44,643	42,977	42,977	0
Support Services:				
Pupils	414,226	398,767	398,767	0
Administration	1,808,017	1,740,542	1,740,542	0
Fiscal	44,076	42,431	42,431	0
Operation and Maintenance of Plant	270,370	260,281	260,281	0
Operation of Non-Instructional Services	<u>8,668</u>	<u>8,345</u>	<u>8,345</u>	<u>0</u>
<i>Total Expenditures</i>	<u>2,590,000</u>	<u>2,493,343</u>	<u>2,493,343</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(10,000)	(34,591)	(34,591)	0
<i>Fund Balance Beginning of Year</i>	565,101	565,101	565,101	0
Prior Year Encumbrances Appropriated	<u>87,152</u>	<u>87,152</u>	<u>87,152</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$642,253</u></u>	<u><u>\$617,662</u></u>	<u><u>\$617,662</u></u>	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2005

	<u>Investment Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$1,708,534	\$584,088
Cash and Cash Equivalents in Segregated Accounts	38,981	0
Accounts Receivable	0	43,729
Accrued Interest	9,149	0
<i>Total Assets</i>	<u>1,756,664</u>	<u>\$627,817</u>
Liabilities		
Intergovernmental Payable	0	\$596,916
Compensated Absences	0	30,901
<i>Total Liabilities</i>	<u>0</u>	<u>\$627,817</u>
Net Assets		
Held in Trust for Pool Participants	1,717,683	
Held for Individual Investment Account	38,981	
<i>Total Net Assets</i>	<u>\$1,756,664</u>	

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Statement of Changes in Fiduciary Net Assets

Fiduciary Fund

For the Fiscal Year Ended June 30, 2005

	<u>Investment Trust</u>
Additions	
Interest	\$30,587
Capital Transactions - Purchases	<u>27,309</u>
<i>Total Additions</i>	<u>57,896</u>
Deductions	
Distributions to Participants	25,381
Capital Transactions	<u>393,164</u>
<i>Total Deductions</i>	<u>418,545</u>
<i>Change in Net Assets</i>	(360,649)
<i>Net Assets Beginning of Year</i>	<u>2,117,313</u>
<i>Net Assets End of Year</i>	<u><u>\$1,756,664</u></u>

See accompanying notes to the basic financial statements

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 1 - Description of the Service Center

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

The Service Center operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State or federal agencies to three local, twenty-six city, and one exempted village school districts. The Board controls the Service Center's staff who provide services to over 125,866 students and other community members in Cuyahoga, Lake, Lorain, and Geauga County. The Service Center's Positive Education Program (PEP) also draws students from all of northeast Ohio, sometimes as far as Toledo and Columbus.

Reporting Entity

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

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

The Service Center participates in six jointly governed organizations, one insurance purchasing pool and one risk sharing pool. These organizations are the Lakeshore Northeast Ohio Computer Association, Cuyahoga Media Center, Alliance for School Funding, Cuyahoga County Early Intervention Collaborative, Positive Education Program, Cuyahoga County Special Education Regional Resource Center, the Ohio School Council's Workers' Compensation Group Rating Program and the Schools of Ohio Risk Sharing Authority. These organizations are presented in Notes 17, 18 and 19 in the notes to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the Service Center that are governmental and those that are considered business-type. However, the Service Center has only governmental activities; therefore no business-type activities are presented.

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

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

B. Fund Accounting

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

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

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

Title VI-B Fund The Title VI-B fund is used to account for federal and State monies to provide full educational opportunities to handicapped children.

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Service Center's own programs. The Service Center's trust funds are three investment trust funds which account for the activity of the external investment pool for the NC Quality Collaborative, Lakeshore Northeast Ohio Computer Association (LNOCA) and the Cuyahoga Media Center and one individual investment account for the Alliance for School Funding. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Service Center's agency funds report resources that belong to other organizations.

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

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

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

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

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

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

E. Budgetary Data

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

The Service Center's Board adopts an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Cash Equivalents

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

During fiscal year 2005, investments were limited to the Victory Federal Money Market Mutual Fund and STAROhio. Investments are reported at fair value. Fair value for the mutual fund is based on the fund's current share price.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$311,624 which includes \$44,295 assigned from other Service Center funds.

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

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Capital Assets

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

L. Net Assets

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

The government-wide statement of net assets reports \$2,032,596 of restricted net assets, of which none is restricted by enabling legislation.

Net assets restricted for other purposes includes the EMIS, Title VI-B, LEP/immigrant, title I, preschool disabilities and improving teacher quality programs.

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

M. Fund Balance Reserves

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

N. Interfund Transactions

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

O. Extraordinary and Special Items

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

P. Estimates

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 3 - Change in Accounting Principle and Restatement of Prior Year Net Assets

A. Change in Accounting Principle

For 2005, the Service Center has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures," GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 40 establishes disclosure requirements for risks associated with deposits and investments.

GASB Statement No. 46 clarifies when net assets should be restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40, GASB Statement No. 46 and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements of the Service Center.

B. Restatement of Prior Year Net Assets

During fiscal year 2005, the Service Center reviewed its capital asset inventory as it moved items from one building to another and updated the computer for errors in calculating accumulated depreciation. This review led to a \$154,845 change in beginning capital assets from \$2,481,876 in fiscal year 2004 to \$2,636,721 in fiscal year 2005. The net assets as of June 30, 2004 increased \$154,845 from \$18,580,390 to \$18,735,235.

Note 4 - Fund Deficit

Fund Balances at June 30, 2005 included an \$819,082 deficit fund balance for the local grant special revenue fund which resulted from the conversion to generally accepted accounting principles and adjustments for accrued liabilities. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

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

	Net Change in Fund Balance	
	<u>General</u>	<u>Title VI-B</u>
GAAP Basis	\$3,954,603	\$474,081
Net Adjustment for Revenue Accruals	1,364,251	(6,269)
Beginning Unrecorded Cash	296,254	15,843
Ending Unrecorded Cash	(296,010)	(9,574)
Advance In	887,000	0
Net Adjustment for Expenditure Accruals	(904,383)	(421,348)
Advance Out	(1,290,900)	0
Adjustment for Encumbrances	<u>(434,763)</u>	<u>(87,324)</u>
Budget Basis	<u><u>\$3,576,052</u></u>	<u><u>(\$34,591)</u></u>

Note 6 - Deposits and Investments

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

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

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

Interim monies held by the Service Center can be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, Notes or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio), and;
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$16,790,760 of the Service Center's bank balance of \$17,041,143 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the Service Center to a successful claim by the FDIC.

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

Investments

As of June 30, 2005, the Service Center had Victory Federal Money Market Mutual Fund and STAROhio investments. All investments are in an internal investment pool.

	<u>Fair Value</u>	<u>Average Maturity</u>
Victory Federal Money Market Mutual Fund	\$1,594,338	30 days
STAROhio	<u>77,394</u>	33 days
	<u><u>\$1,671,732</u></u>	

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

Credit Risk The Victory Federal Money Market Mutual Fund carries a rating of AAAM by Standard & Poor's. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The Service Center has no investment policy that would further limit its investment choices.

Note 7 - Investment Pool

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Statement of Net Assets

June 30, 2005

Assets

Equity in Pooled Cash and Cash Equivalents	\$16,615,679
Interest Receivable	77,840
<i>Total Assets</i>	<u>\$16,693,519</u>

Net Assets Held in Trust for Pool Participants

Internal Portion	\$14,975,836
External Portion	1,717,683
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u>\$16,693,519</u>

Statement of Changes in Net Assets

For Fiscal Year Ended June 30, 2005

Additions

Interest	\$342,211
Capital Transactions	3,706,634
<i>Total Additions</i>	4,048,845

Deductions

Distributions to Participants	284,980
<i>Change in Net Assets</i>	3,763,865
<i>Net Assets Beginning of Year</i>	<u>12,929,654</u>
<i>Net Assets End of Year</i>	<u>\$16,693,519</u>

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$16,790,760 of the Service Center's bank balance of \$16,990,760 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the Service Center to a successful claim by the FDIC.

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

Investments

As of June 30, 2005, the Service Center had Victory Federal Money Market Mutual Fund and STAROhio investments.

	<u>Fair Value</u>	<u>Average Maturity</u>
Victory Federal Money Market Mutual Fund	\$1,594,338	30 days
STAROhio	77,394	33 days
	<u>\$1,671,732</u>	

Note 8 - Receivables

Receivables at June 30, 2005, consisted of accounts and intergovernmental monies. All receivables are considered collectible in full within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
Special Education Excess Costs	\$9,971,790
Grant Services	869,599
State Cafeteria Subsidy	37,112
Title VI-B Grant Subsidy	828,602
Local Grants Subsidy	4,000
Peer Assistance Grant Subsidy	426,602
LEP/Immigrant/Title III Grant Subsidy	8,355
Title I Grant Subsidy	193,183
Preschool Disabilities Grant Subsidy	1,559
Total	<u>\$12,340,802</u>

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 9 - State Funding

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

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

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

Note 10 - Interfund Transactions

Interfund balances at June 30, 2005, consist of the following individual fund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
	<u>General Fund</u>
<i>Governmental Activities</i>	
Non-Major Funds	
Local Grants	\$834,100
Peer Assistance	281,600
Title I	175,200
<i>Total Governmental Activities</i>	<u><u>\$1,290,900</u></u>

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/04	Additions	Deletions	Balance 6/30/05
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$390,975	\$130,100	\$0	\$521,075
Construction in Progress	0	134,573	0	134,573
Total Capital Assets, not being depreciated:	390,975	264,673	0	655,648
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	2,133,375	754,917	0	2,888,292
Furniture and Equipment	413,999	114,390	(48,737)	479,652
Vehicles	0	12,378	0	12,378
Total Capital Assets, being depreciated	2,547,374	881,685	(48,737)	3,380,322
Less Accumulated Depreciation				
Buildings and Improvements	(35,395)	(66,035)	0	(101,430)
Furniture and Equipment	(266,233)	(58,422)	41,042	(283,613)
Vehicles	0	(5,157)	0	(5,157)
Total Accumulated Depreciation	(301,628)	(129,614)*	41,042	(390,200)
Total Capital Assets, being depreciated, net	2,245,746	752,071	(7,695)	2,990,122
Governmental Activities Capital Assets, Net	\$2,636,721	\$1,016,744	(\$7,695)	\$3,645,770

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$25,469
Special	687
Support Services:	
Pupils	463
Instructional Staff	8,730
Administration	80,470
Fiscal	4,421
Operation and Maintenance of Plant	9,160
Central	214
Total Depreciation Expense	\$129,614

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 12 - Risk Management

A. Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the Service Center contracted with Schools Ohio Risk Sharing Authority (SORSA) insurance consortium for the following insurance:

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

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

B. Workers' Compensation

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

Note 13 - Pension Plans

A. School Employees Retirement System

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute at an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$1,860,373, \$1,653,001 and \$1,345,297, respectively; 100 percent has been contributed for fiscal years 2005, 2004 and 2003.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

The Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$2,565,481, \$2,608,620 and \$2,558,067, respectively; 100 percent has been contributed for fiscal years 2005, 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$32,339 made by the Service Center and \$66,713 made by the plan members.

Note 14 - Postemployment Benefits

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Service Center, this amount equaled \$202,476 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the Service Center, paid \$970,369 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113 and the target level was \$335.2 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 15 - Other Employee Benefits

A. Compensated Absences

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

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

B. Life Insurance

The Service Center provides life insurance and accidental death and dismemberment insurance to all employees through the Ohio Schools Council. There is an employee option to purchase additional life insurance for spouses where the employee has a payroll deduction for the full premium amount.

C. Health Insurance

The Service Center provides employee medical/surgical benefits through various insurance companies including Medical Mutual, Qual Choice, Super Med and Kaiser. The employees share the cost of the monthly premium with the Service Center. The percentage of premium to be paid varies with each employee depending on the terms of their contracts and whether it is a family or single policy. Dental and prescription insurance is provided the Service Center to all employees through Medical Mutual.

Note 16 - Long-Term Obligations

The changes in the Service Center's long-term obligations during fiscal year 2005 were as follows:

	<u>Outstanding June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2005</u>	<u>Due Within One Year</u>
Compensated Absences	<u>\$1,193,020</u>	<u>\$35,559</u>	<u>\$103,409</u>	<u>\$1,125,170</u>	<u>\$790,382</u>

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 17 - Jointly Governed Organizations

A. Lakeshore Northeast Ohio Computer Association (LNOCA)

LNOCA is a jointly governed organization among sixteen school districts in Cuyahoga County and the Service Center. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports LNOCA based on a per pupil charge. The Service Center contributed \$10,000 to LNOCA during the fiscal year 2005 which was .37 percent of total revenues received by LNOCA.

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

B. Cuyahoga Media Center (Media Center)

The Media Center is a jointly governed organization among seventeen school districts and the Service Center. The jointly governed organization was formed for the purpose of providing media services to the participants. Each of the districts supports the Media Center based on a per pupil charge. The Media Center is a jointly governed organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The Service Center did not make any contributions to the Media Center in the fiscal year 2005.

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

C. Alliance for School Funding (Alliance)

The Alliance is a jointly governed organization among fifty school districts including the Service Center in Cuyahoga County. The jointly governed organization was formed to protect the concept of the existing system of school funding. Each participant pays an annual membership fee. The Service Center did not make any contributions to the Alliance during fiscal year 2005.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of thirteen members. Four members of the Governing Board are elected annually by the participants. The degree of control exercised by any participant is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. Starting with July 1, 2005, the Upper Arlington School District Treasurer will now be responsible for all accounting functions of the Alliance. To obtain a copy of the Alliance's financial statements, write to the Upper Arlington School District, Treasurer, 1950 N. Mallway Drive, Upper Arlington, Ohio 43221-4326.

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

D. Cuyahoga County Early Intervention Collaborative (CCEIC)

The CCEIC selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed to provide interagency planning, policy development and implementation of programs for infant and toddlers with developmental disabilities or risk factors, and their families in Cuyahoga County. The Service Center did not make any contributions to the CCEIC in fiscal year 2005.

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

E. Positive Education Program (PEP)

The PEP is a non-profit organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center did not make any contributions to PEP in fiscal year 2005.

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

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

The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center did not make any contributions to SERRC in fiscal year 2005.

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

Note 18 – Insurance Purchasing Pools

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

Cuyahoga County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Note 19 – Risk Sharing Pool

The Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), a risk sharing pool with over 65 members. SORSA is a 100 percent member-owned, non-profit insurance risk pool owned and governed by the school district members. SORSA is governed by a Board of Directors comprised of representatives of school districts that participate in the program.

SORSA has agreements with several separate organizations whereby each provides certain administrative, executive, accounting, marketing, underwriting, claim settlement, legal council and other services to SORSA and its members. Pursuant to participation agreements with SORSA, each member school district agrees to pay all funding rates associated with the coverage elected. This coverage includes comprehensive general liability, property insurance and automobile liability insurance. To obtain a copy of the SORSA financial statements, write the SORSA Executive Director at 8050 North High Street, Suite 160, Columbus, Ohio 43235-6483.

Note 20 - Contingencies

A. Grants

The Service Center received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2005.

B. Litigation

The Service Center is a party to legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2005.

**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER
CUYAHOGA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor Pass Through Grantor Program or Cluster Title	Pass Through Entity Identifying Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Pass Through Ohio Department of Education:</i>				
Nutrition Cluster:				
Federal School Breakfast	046532-05PU-2004	10.553	\$ 21,067	\$ 21,067
	046532-05PU-2005	10.553	39,112	39,112
Total School Breakfast			60,179	60,179
National School Lunch Program	046532-LLP4-2004	10.555	40,909	40,909
	046532-LLP4-2005	10.555	65,707	65,707
Total School Lunch			106,616	106,616
Total U.S. Department of Agriculture-Nutrition Cluster			166,795	166,795
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title I -Grants in Local Educational Agency	046532-C1ST-2004	84.010	38,455	213,638
	046532-C1SN-2005	84.010	106,078	67,230
	046532-C1S1-2004	84.010	0	25,785
Total Title I			144,533	306,653
Special Education Cluster:				
Special Education-Grants to States (IDEA Part B)	046532-6BAA-2005	84.027	15,000	11,750
	046532-6BEC-2005	84.027	20,000	0
	046532-6BII-2005	84.027	19,450	12,901
	046532-6BSI-2004-P	84.027	8,313	593,467
	046532-6BSI-2005	84.027	1,426,260	1,327,381
	046532-6BSF-2005	84.027	571,039	0
	046532-6BPT-2004-P	84.027	11,767	13,492
	046532-6BSF-2003-P	84.027	297,815	363,189
Total Special Part B			2,369,644	2,322,180
Special Education-Preschool Grant	046532-PGS1-2004	84.173	0	12,235
	046532-PGSI-2005	84.173	16,707	0
	046532-PGD4-2004-P	84.173	44,140	274,140
	046532-PGD6-2003	84.173	201,079	201,079
Total Special Preschool			261,926	487,454
Total Special Education Cluster			2,631,570	2,809,634
Special Education - State Personnel Development	046532-STS1-2005	84.323	89,107	83,838
Safe and Drug Free Schools and Communities	046532-T4S1-2004-P	84.184	0	3,491
Improving Teacher Quality State Grant	046532-TRA2-2004	84.367	(109,017)	14,538
	046532-TRSP-2005	84.367	179,693	143,496
Total Improving Teacher Quality			70,676	158,034
<i>Passed through Ohio Department of Health:</i>				
English Language Acquisition Grant	046532-T3S1-2004	84.365	13,708	28,474
	046532-T3S1-2005	84.365	88,329	79,061
Total English Language			102,037	107,535
Total U.S. Department of Education			3,037,923	3,469,185
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through the Ohio Department of MRDD:</i>				
Title XIX-Medical Assistance Program (CAFS)	046532-894322	93.778	405,604	405,604
Title XIX (Final CAFS Settlement for FY 1998)	046532-894322	93.778	86,697	86,697
Total Title XIX			492,301	492,301
State Children's Health Insurance Program (SCHIP)	046532-894322	93.767	27,442	27,442
Substance Abuse and Mental Health Services	6-U79-SM54817-2001	93.243	77,815	102,400
Total U.S. Department of Health and Human Services			597,558	622,143
Total Federal Awards Expenditures			\$ 3,802,276	\$ 4,258,123

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

**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

CFDA = Catalog of Federal Domestic Assistance.

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

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

NOTE B – CARRYOVER FUNDS

A negative receipt is shown for the Improving Teacher Quality State Grant, CFDA #84.367. This negative receipt represents monies on the Final Expenditure Report that were unspent after the initial period of availability. These monies were in accordance with allowable carryover provisions and added to the following fiscal year award amounts.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Directors:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga County Educational Service Center, Cuyahoga County, Ohio, (the Service Center) as of and for the year ended June 30, 2005, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated February 21, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Service Center's management dated February 21, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Service Center's management dated February 21, 2006, we reported an other matter related to noncompliance we deemed immaterial.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

Cuyahoga County Educational Service Center
Cuyahoga County
Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other
Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, the Board of Directors, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 21, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Directors:

Compliance

We have audited the compliance of the Cuyahoga County Educational Service Center, Cuyahoga County, Ohio, (the Service Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the Service Center's major federal programs. The Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 Cuyahoga County Educational Service Center, Cuyahoga County, Ohio, complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The Service Center's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of management, the Board of Directors, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 21, 2006

**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 84.027 & 84.173 – Special Education Cluster; CFDA # 93.778 – Medicaid Program
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

EDUCATIONAL SERVICE CENTER

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 23, 2006**