

**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

Cuyahoga County Educational Service Center

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REPORT OF INDEPENDENT ACCOUNTANTS

Cuyahoga County Educational Service Center
5700 West Canal Road
Valley View, Ohio 44125

To The Governing Board:

We have audited the accompanying general-purpose financial statements of the Cuyahoga County Educational Service Center, Ohio, (the Service Center) as of and for the year ended June 30, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Cuyahoga County Educational Service Center, Ohio, as of June 30, 1999, and the results of its operations and the statement of changes in net assets for its fiduciary fund type for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2000, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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



Jim Petro
Auditor of State

January 12, 2000

Cuyahoga County Educational Service Center
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 1999

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Types</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>
Assets and Other Debits			
Assets			
Equity in Pooled Cash and Cash Equivalents	\$12,305,305	\$293,848	\$2,059,650
Cash and Cash Equivalents In Segregated Accounts	0	0	9,104
Investments In Segregated Accounts	0	0	286,228
Receivables:			
Accounts	366	0	0
Intergovernmental	5,419,472	0	67,784
Accrued Interest	6,272	0	1,010
Interfund Receivable	96,317	0	0
Prepaid Items	39,611	418	0
Fixed Assets	0	0	0
Other Debits			
Amount to be Provided from General Government Resources	0	0	0
Total Assets and Other Debits	<u>\$17,867,343</u>	<u>\$294,266</u>	<u>\$2,423,776</u>

<u>Account Groups</u>		
<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	<u>Totals (Memorandum Only)</u>
\$0	\$0	\$14,658,803
0	0	9,104
0	0	286,228
0	0	366
0	0	5,487,256
0	0	7,282
0	0	96,317
0	0	40,029
263,717	0	263,717
<u>0</u>	<u>732,591</u>	<u>732,591</u>
<u>\$263,717</u>	<u>\$732,591</u>	<u>\$21,581,693</u>

(continued)

Cuyahoga County Educational Service Center
Combined Balance Sheet
All Fund Types and Account Groups (continued)
June 30, 1999

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Types</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>
<i>Liabilities, Net Assets, Fund Equity and Other Credits</i>			
Liabilities			
Accounts Payable	\$98,266	\$24,297	\$0
Accrued Wages	2,350,168	24,358	0
Compensated Absences Payable	9,625	0	0
Interfund Payable	0	25,363	70,954
Intergovernmental Payable	3,680,976	24,657	704,804
<i>Total Liabilities</i>	<u>6,139,035</u>	<u>98,675</u>	<u>775,758</u>
Net Assets, Fund Equity and Other Credits			
Investment in General Fixed Assets	0	0	0
Net Assets:			
Held in Trust for Pool Participants	0	0	1,352,686
Held for Individual Investment Account	0	0	295,332
Fund Balance:			
Reserved for Encumbrances	336,535	27,071	0
Unreserved, Undesignated	11,391,773	168,520	0
<i>Total Fund Equity, Net Assets, and Other Credits</i>	<u>11,728,308</u>	<u>195,591</u>	<u>1,648,018</u>
<i>Total Liabilities, Net Assets, Fund Equity and Other Credits</i>	<u>\$17,867,343</u>	<u>\$294,266</u>	<u>\$2,423,776</u>

<u>Account Groups</u>		
<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	<u>Totals (Memorandum Only)</u>
\$0	\$0	\$122,563
0	0	2,374,526
0	648,842	658,467
0	0	96,317
0	83,749	4,494,186
<u>0</u>	<u>732,591</u>	<u>7,746,059</u>
263,717	0	263,717
0	0	1,352,686
0	0	295,332
0	0	363,606
0	0	11,560,293
<u>263,717</u>	<u>0</u>	<u>13,835,634</u>
<u>\$263,717</u>	<u>\$732,591</u>	<u>\$21,581,693</u>

Cuyahoga County Educational Service Center
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 1999*

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Revenues			
Intergovernmental	\$4,150,764	\$803,887	\$4,954,651
Interest	559,830	0	559,830
Tuition and Fees	0	0	0
Contributions and Donations	1,428	2,485	3,913
Charges for Services	34,936,576	0	34,936,576
Miscellaneous	334,574	30,487	365,061
<i>Total Revenues</i>	<u>39,983,172</u>	<u>836,859</u>	<u>40,820,031</u>
Expenditures			
Current:			
Instruction:			
Regular	272,816	87,939	360,755
Special	17,310,920	93,818	17,404,738
Vocational	288,900	0	288,900
Support Services:			
Pupils	2,943,714	141,809	3,085,523
Instructional Staff	6,835,182	91,035	6,926,217
Board of Education	24,357	0	24,357
Administration	5,460,796	281,928	5,742,724
Fiscal	275,746	34,192	309,938
Business	83,014	0	83,014
Operation and Maintenance of Plant	200,974	0	200,974
Pupil Transportation	1,203	0	1,203
Central	8,234	0	8,234
Operation of Non-Instructional Services	3,445,608	0	3,445,608
Capital Outlay	485,787	0	485,787
<i>Total Expenditures</i>	<u>37,637,251</u>	<u>730,721</u>	<u>38,367,972</u>
<i>Excess of Revenues Over Expenditures</i>	2,345,921	106,138	2,452,059
Other Financing Sources			
Proceeds from Sale of Fixed Assets	4,600	0	4,600
<i>Excess of Revenues and Other Financing Sources Over Expenditures</i>	2,350,521	106,138	2,456,659
<i>Fund Balances Beginning of Year (Restated - Note 3)</i>	<u>9,377,787</u>	<u>89,453</u>	<u>9,467,240</u>
<i>Fund Balances End of Year</i>	<u>\$11,728,308</u>	<u>\$195,591</u>	<u>\$11,923,899</u>

See accompanying notes to the general purpose financial statements

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Cuyahoga County Educational Service Center
*Combined Statement of Revenues, Expenditures and Changes In
Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Fiscal Year Ended June 30, 1999*

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Intergovernmental	\$4,150,764	\$4,150,764	\$0
Interest	502,832	502,832	0
Tuition and Fees	0	0	0
Contributions and Donations	1,428	1,428	0
Charges for Services	35,733,844	35,733,844	0
Miscellaneous	335,865	334,374	(1,491)
<i>Total Revenues</i>	<u>40,724,733</u>	<u>40,723,242</u>	<u>(1,491)</u>
Expenditures			
Current:			
Instruction:			
Regular	458,690	289,117	169,573
Special	14,947,200	17,221,438	(2,274,238)
Vocational	330,000	285,077	44,923
Support Services:			
Pupils	3,089,767	3,043,173	46,594
Instructional Staff	6,793,900	6,959,527	(165,627)
Board of Education	15,050	24,511	(9,461)
Administration	4,987,708	5,908,526	(920,818)
Fiscal	271,589	275,783	(4,194)
Business	109,200	101,216	7,984
Operation and Maintenance of Plant	180,554	180,997	(443)
Pupil Transportation	0	1,201	(1,201)
Central	12,000	8,234	3,766
Operation of Non-Instructional Services	3,723,078	3,745,966	(22,888)
<i>Total Expenditures</i>	<u>34,918,736</u>	<u>38,044,766</u>	<u>(3,126,030)</u>
<i>Excess of Revenues Over Expenditures</i>	<u>5,805,997</u>	<u>2,678,476</u>	<u>(3,127,521)</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Fixed Assets	4,600	4,600	0
Advances In	123,250	123,250	0
Advances Out	(401,806)	(96,317)	305,489
Operating Transfers Out	(205,000)	0	205,000
<i>Total Other Financing Sources (Uses)</i>	<u>(478,956)</u>	<u>31,533</u>	<u>510,489</u>
<i>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</i>	<u>5,327,041</u>	<u>2,710,009</u>	<u>(2,617,032)</u>
<i>Fund Balances Beginning of Year</i>	<u>5,172,699</u>	<u>5,172,699</u>	<u>0</u>
Prior Year Encumbrances Appropriated	262,923	262,923	0
<i>Fund Balances End of Year</i>	<u>\$10,762,663</u>	<u>\$8,145,631</u>	<u>(\$2,617,032)</u>

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$828,887	\$828,887	\$0	\$4,979,651	\$4,979,651	\$0
0	0	0	502,832	502,832	0
0	0	0	0	0	0
2,485	2,485	0	3,913	3,913	0
0	0	0	35,733,844	35,733,844	0
30,487	30,487	0	366,352	364,861	(1,491)
861,859	861,859	0	41,586,592	41,585,101	(1,491)
86,708	89,536	(2,828)	545,398	378,653	166,745
200,408	102,811	97,597	15,147,608	17,324,249	(2,176,641)
0	0	0	330,000	285,077	44,923
135,825	150,587	(14,762)	3,225,592	3,193,760	31,832
88,203	89,178	(975)	6,882,103	7,048,705	(166,602)
0	0	0	15,050	24,511	(9,461)
413,220	284,957	128,263	5,400,928	6,193,483	(792,555)
41,698	33,570	8,128	313,287	309,353	3,934
0	0	0	109,200	101,216	7,984
0	0	0	180,554	180,997	(443)
0	0	0	0	1,201	(1,201)
0	0	0	12,000	8,234	3,766
0	0	0	3,723,078	3,745,966	(22,888)
966,062	750,639	215,423	35,884,798	38,795,405	(2,910,607)
(104,203)	111,220	215,423	5,701,794	2,789,696	(2,912,098)
0	0	0	4,600	4,600	0
25,363	25,363	0	148,613	148,613	0
(750)	(73,250)	(72,500)	(402,556)	(169,567)	232,989
0	0	0	(205,000)	0	205,000
24,613	(47,887)	(72,500)	(454,343)	(16,354)	437,989
(79,590)	63,333	142,923	5,247,451	2,773,342	(2,474,109)
126,777	126,777	0	5,299,476	5,299,476	0
33,293	33,293	0	296,216	296,216	0
\$80,480	\$223,403	\$142,923	\$10,843,143	\$8,369,034	(\$2,474,109)

Cuyahoga County Educational Service Center
Combined Statement of Changes in Net Assets
Fiduciary Fund Type
For the Fiscal Year Ended June 30, 1999

	<u>Investment Trust</u>
Revenues	
Interest	\$78,518
Expenses	
Operating Expenses	0
<i>Net Increase in Assets Resulting From Operations</i>	78,518
Distributions to Participants	(73,714)
Capital Transactions	258,525
<i>Total Increase in Net Assets</i>	263,329
<i>Net Assets Beginning of Year</i>	1,384,689
<i>Net Assets End of Year</i>	\$1,648,018

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

Note 1 - Description of the Educational Service Center

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

The Educational 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 Educational Service Center's staff who provide services to 123,571 students and other community members in Cuyahoga County.

Reporting Entity

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

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

The Educational Service Center is associated with six jointly governed organizations and one insurance purchasing pool. These organizations are the Lakeshore Northeast Ohio Computer Association, Cuyahoga Media Center, Alliance for School Funding, Cuyahoga County Early Intervention Collaborative, Positive Education Program, Cuyahoga County Special Education Regional Resource Center, and the Ohio Schools Board Association Workers' Compensation Group. These organizations are presented in Notes 17 and 18 to the general purpose financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Educational Service Center's accounting policies are described below.

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

A. Basis of Presentation-Fund Accounting

The Educational Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Educational Service Center functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

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

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

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

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

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

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

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

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

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

B. Measurement Focus and Basis of Accounting

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

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

The modified accrual basis of accounting is followed for the governmental and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after year end.

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

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

Investment trust funds report transactions and balances using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

C. Budgetary Data

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

The Educational Service Center has funds which are budgeted as agency funds, but are reported among the various governmental funds for GAAP reporting purposes.

Estimated Revenues After the start of the fiscal year, estimated resources are revised to include any unencumbered balances from the preceding fiscal year. The revised estimated resources represents the maximum amount that may be appropriated from each fund. Estimated resources may be further amended

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

during the year as projected increases or decreases in revenue are identified by the Treasurer or additional grant programs are approved by the Board.

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

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

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

D. Cash, Cash Equivalents and Investments

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds, are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center records. Each funds' interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 1999, investments were limited to interest in Bankers Acceptances, Commercial Paper, Federal National Mortgage Association Notes, Federal Home Loan Mortgage Backed Securities, Victory Federal Money Market, and Certificates of Deposit.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$559,830, which includes \$68,004 assigned for other Educational Service Center funds.

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

The Educational Service Center has segregated bank accounts for an individual investment account held separate from the Educational Service Center's central bank account. This money is presented on the combined balance sheet as "cash and cash equivalents in segregated accounts" or "investments in segregated accounts" since they are not required to be deposited into the Educational Service Center's treasury.

For purposes of presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1999, 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.

F. Inventory

Inventories are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Since the inventory balance at June 30, 1999, was not significant, an amount was not reported on the combined balance sheet.

G. Fixed Assets and Depreciation

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

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized. Assets in the general fixed assets account group are not depreciated.

H. Intergovernmental Revenues

Intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

The Educational Service Center currently participates in several State and Federal programs, categorized as follows:

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Ohio Media Regional Grant

Educational Management Information System

Head Start Disabilities

Special Education Regional Resource Center

Professional Development Work Cluster

Pilot Project American Sign Language

Ohio Early Start

Ohio School Conflict Management

Peer Assistance and Review

Title VI-B

Title I

Preschool Disabilities

Ohio Early Intervention

Goals 2000

Learn & Serve

Urban Service

Grants and entitlements amounted to twelve percent of the Educational Service Center's governmental funds revenue during the 1999 fiscal year.

I. Interfund Assets and Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables." During fiscal year 1999, there were advances in and advances out in the agency funds. Since agency funds do not present budgetary statements, advances in and advances out do not balance on a budgetary basis.

J. Compensated Absences

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

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits in the Educational Service Center's termination policy.

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

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. In general, amounts paid more than sixty days after year end are considered not to have been paid with current available financial resources.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Fund Balance Reserves

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

N. 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.

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles.

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 3 -Restatement of Balances

The general fund balance changed from \$9,437,082 to \$9,377,787 as of June 30, 1998 due to an understatement of accrued wages, compensated absences and intergovernmental payable. The effect of these restatements changed the excess of revenues over expenditures for the general fund for the fiscal year ended June 30, 1998 from \$492,459 to \$433,164.

The general long-term obligations account group total liabilities changed from \$337,301 to \$540,017 due to an understatement of compensated absences.

Note 4 - Budgetary Basis of Accounting

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

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

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statement.

Excess of Revenues and Other Financing Sources
 Over (Under) Expenditures and Other Financing Sources
 All Governmental Fund Types

	General	Special Revenue
GAAP Basis	\$2,350,521	\$106,138
Revenue Accruals	740,070	25,000
Advance In	123,250	25,363
Expenditure Accruals	15,744	50,527
Advance Out	(96,317)	(73,250)
Encumbrances	(423,259)	(70,445)
Budget Basis	\$2,710,009	\$63,333

Note 5 - Accountability

At June 30, 1999, the Title I Special Revenue Funds had a deficit of \$21,452, which is due to 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 6 - Deposits and Investments

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

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

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

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

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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

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

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

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

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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

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

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

Deposits At fiscal year end, the carrying amount of the Educational Service Center's deposits was (\$612,635) and the bank balance was \$2,543,352. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$2,343,352 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

	Category 2	Fair Value
Bankers Acceptance	\$1,395,655	\$1,395,655
Commercial Paper	286,228	286,228
Federal Home Loan Bank Notes	7,294,337	7,294,337
Federal National Mortgage Association Notes	3,072,579	3,072,579
Victory Federal Money Market Mutual Fund	0	3,517,871
	\$12,048,799	\$15,566,670
Totals		

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$14,667,907	\$286,228
Investments which are part of the cash management pool:		
Cash on Hand	(100)	0
Bankers Acceptance	(1,395,655)	1,395,655
Federal Home Loan Bank Notes	(7,294,337)	7,294,337
Federal National Mortgage Association Notes	(3,072,579)	3,072,579
Victory Federal Money Market Mutual Fund	(3,517,871)	3,517,871
GASB Statement No. 3	(\$612,635)	\$15,566,670

Note 7 - Receivables

Receivables at June 30, 1999, consisted of accounts and intergovernmental monies. All receivables are considered collectible in full because of the stable condition of State programs and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amount
General Fund	
Special Education Excess Cost	\$5,378,337
Medicaid Reimbursement	37,775
National School Lunch	3,360
Total General Fund	5,419,472
Agency Fund	
Ohio Schools	67,784
<i>Total</i>	\$5,487,256

Note 8 - Investment Pool

The Educational Service Center serves as fiscal agent for various legally separate entities. The Educational Service Center pools the moneys of these entities with the Educational Service Center's for investment purposes. The Educational Service Center cannot allocate its investments between the internal and external investment pools. The investment pool is not registered with the SEC as an investment company. The fair

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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:

Statement of Net Assets
June 30, 1999

Assets	
Equity in Pooled Cash and Cash Equivalents	\$14,658,803
Interest Receivable	7,282
	<u> </u>
<i>Total Assets</i>	<u><u>\$14,666,085</u></u>
 Net Assets Held in Trust for Pool Participants	
Internal Portion	\$13,313,399
External Portion	1,352,686
	<u> </u>
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u><u>\$14,666,085</u></u>

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 1999

Revenues	
Interest	\$615,936
 Expenses	
Operating Expenses	0
	<u> </u>
<i>Net Increase in Assets Resulting from Operations</i>	615,936
Distributions to Participants	(558,938)
Capital Transactions	3,875,330
	<u> </u>
<i>Total Increase in Net Assets</i>	3,932,328
<i>Net Assets Beginning of Year</i>	<u>10,733,757</u>
<i>Net Assets End of Year</i>	<u><u>\$14,666,085</u></u>

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

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

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

Deposits At fiscal year end, the carrying amount of the investment pool's deposits was (\$621,739) and the bank balance was \$2,543,352. Of the bank balance \$200,000 was covered by federal depository insurance and \$2,343,352 was uninsured and uncollateralized. Although the State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the investment pool to a successful claim by the FDIC.

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

	Interest Rates	Category 2	Fair Value
Bankers Acceptance	4.556% - 4.65%	\$1,395,655	\$1,395,655
Federal Home Loan Bank Notes	4.479 - 4.573	7,294,337	7,294,337
Federal National Mortgage Association Notes	4.511 - 4.758	3,072,579	3,072,579
Victory Federal Money Market Mutual Fund	4.68	0	3,517,871
Totals		\$11,762,571	\$15,280,442

The Bankers Acceptance securities have maturities ranging from July 12, 1999 to November 8, 1999. The Federal Home Loan Mortgage securities have maturities ranging from July 9, 1999 to August 12, 1999. The Federal National Mortgage Association securities have maturities ranging from July 16, 1999 to August 24, 1999.

Note 9 - Fixed Assets

A summary of the changes in general fixed assets during fiscal year 1999 is as follows:

	Balance June 30, 1998	Additions	Deletions	Balance June 30, 1999
Furniture and Fixtures	\$207,516	\$56,201	\$0	\$263,717
Vehicles	10,200	0	10,200	0
Total	\$217,716	\$56,201	\$10,200	\$263,717

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

Note 10 - State Funding

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

Part (B) of the budget is funded in the following way: \$6.50 times the ADM (Total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Educational Service Center provides services from payments made under the State's foundation program. Simultaneously, \$36 times the sum of the ADM is paid by the State Board of Education from State funds to the Educational Service Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$38.50 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their State foundation payments. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment. The local districts of Cuyahoga County have agreed to pay \$8.50, or an additional \$2.00 per pupil through reductions in their State Foundation for the services provided by the Educational Service Center.

Note 11 - Interfund Transactions

Interfund balances at June 30, 1999, consist of the following individual fund receivables and payables:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General	\$96,317	\$0
Special Revenue Funds		
Title I	0	25,363
Agency Fund		
Ohio Schools Council	0	67,784
CEILCG	0	3,170
<i>Total Agency Funds</i>	0	70,954
Total	\$96,317	\$96,317

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

Note 12 - Risk Management

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the Educational Service Center contracted with Nationwide Insurance Company, Harcum-Hyre Insurance Agency, Inc. for general liability insurance. Leased vehicles are covered by Nationwide Insurance Company and have a \$250 deductible for comprehensive and a \$500 deductible for collision. The vehicle liability insurance is on an occurrence basis with a \$1,000,000 combined single limit.

Professional liability is protected by the Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$2,000,000 single occurrence limit and no deductible.

Property insurance is protected by Westfield Companies, Hamilton Insurance Agency, Inc. with a deductible of \$250.

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

For fiscal year 1999, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Note 13 - Defined Benefit Pension Plan

A. State Teachers Retirement System

The Educational Service Center contributes to the School Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
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For the fiscal year ended June 30, 1999, plan members are required to contribute 9.3 percent of their annual covered salaries. The School District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contributions to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$1,025,035, \$1,697,573, and \$2,190,666 respectively, nothing has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$1,025,035 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

B. School Employees Retirement System

The Educational 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Cuyahoga County Educational Service Center is required to contribute an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund the pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$861,460, \$953,618, and \$1,247,060, respectively; nothing has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$861,460 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

Note 14 - Postemployment Benefits

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System, (STRS), and to retired non-certificated 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 System based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By 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, 1999, the STRS Board allocated employer contributions equal

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the School District this amount equaled \$1,364,614 for fiscal year 1999.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1998, (the latest information available) the balance in the Fund was \$2,156 million. For the year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.3 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. 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 1999, the minimum pay has been established as \$12,400. For the School District, the amount to fund health care benefits, including surcharge, during the 1999 fiscal year equaled \$788,580.

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 125 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1998, (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 15 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Accumulated unused vacation time is not paid upon termination of employment. Teachers do not earn vacation time. 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 180 days for all employees.

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

B. Life Insurance

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

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

Note 16 - Long-Term Obligations

Changes in long-term obligations of the Educational Service Center, during fiscal year 1999, were as follows:

	Outstanding 6/30/98	Additions	Deductions	Outstanding 6/30/99
Pension Obligation	\$76,504	\$83,749	\$76,504	\$83,749
Compensated Absences	463,513	197,650	12,321	648,842
<i>Total General Long-Term Obligations</i>	<u>\$540,017</u>	<u>\$281,399</u>	<u>\$88,825</u>	<u>\$732,591</u>

Compensated absences and the pension obligation will be paid from the fund from which the employee is paid.

Note 17 - Jointly Governed Organizations

A. Lakeshore Northeast Ohio Computer Association (LNOCA)

LNOCA is a jointly governed organization among sixteen school districts and the Cuyahoga County Educational Service Center in Cuyahoga County. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports LNOCA based on a per pupil charge. The Service Center contributed \$8,000 to LNOCA during fiscal year 1999 which was .43 percent of total revenues received by LNOCA.

The Governing Board consists of superintendents of each participating school district and the educational service center. 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 LNOCA's financial statements, write to the Educational Service Center at 5700 West Canal Road, Valley View, Ohio 44125.

B. Cuyahoga Media Center (Media Center)

The media center is a jointly governed organization among seventeen school districts. 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 fiscal year 1999.

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 Educational Service Center at 5700 West Canal Road, Valley View, Ohio 44125.

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

C. Alliance for School Funding (Alliance)

The Alliance is a jointly governed organization among fifty school districts including the Cuyahoga County Educational Service Center in Cuyahoga County. The jointly governed organization was formed to protect the concept of the existing system of school funding. Each participant pays an annual membership fee. The Service Center contributed \$2,700 to the Alliance during fiscal year 1999 which was 1.44 percent of total revenues received by the Alliance.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of thirteen members. Four members of the Governing Board are elected annually by the participants. The degree of control exercised by any participant is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of the Alliance's financial statements, write to the Educational Service Center at 5700 West Canal Road, Valley View, Ohio 44125.

D. Cuyahoga County Early Intervention Collaborative (CCEIC)

The CCEIC selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed to provide interagency planning, policy development and implementation, of programs for infants 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 1999.

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 Educational Service Center at 5700 West 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 has not contributed to PEP in fiscal year 1999.

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

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

The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center has not contributed to the SERRC in fiscal year 1999.

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

SERRC is governed by a governing board of forty-seven members made up of all the superintendents of all the school districts in Cuyahoga County. The degree of control is exercised by an participating school district is limited to its representation on the Board. To obtain a copy of the SERRC's financial statements, write to the Educational Service Center at 5700 West Canal Road, Valley View, Ohio 44125.

Note 18 - Insurance Purchasing Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 19 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 1999.

B. Litigation

The Educational Service Center is not a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects.

Note 20 - State School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$2,794,939 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of the date of these financial statements, the Ohio Supreme Court has not rendered an opinion on

Cuyahoga County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

Note 21 - Year 2000 Information

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations as early as fiscal 1999.

Cuyahoga County Educational Service Center has completed an inventory of computer systems and other equipment necessary to conducting Center operations and has identified such systems as being financial reporting, payroll and grant reporting.

The Northwest Ohio Computer Association State Software Development Team has indicated that:

“The payroll processing software supported with OECN State Software is compliant with the Year 2000.”

“The accounting software is supported with the OECN State Software is compliant with the Year 2000.”

“The education management information system software supported with OECN State Software is compliant with Year 2000.”

“The equipment inventory and vehicle inventory system software supported with the OECN State Software will be compliant with the Year 2000, beginning with the March 1999 release of SAAS V2.1.”

The State of Ohio distributes a substantial sum of money to the Center. Further, the State processes a significant amount of financial and non-financial information about the Center through the State's Education Management and Information System (EMIS). The State is responsible for remediating these systems.

To the best of management's knowledge and belief, as of January 12, 2000, the Center experienced no significant interruption of mission-critical operations or services related to the Year 2000 issue. However, because of the unprecedented nature of the Year 2000 issue, matters may yet arise, and parties with whom the Center does business may also experience Year 2000 readiness issues that are as yet, unknown.

Cuyahoga County Educational Service Center
Schedule of Federal Awards Receipts and Expenditures
For the Year Ended June 30, 1999

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	CFDA Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed through Ohio Department of Education</i>				
School Lunch Program	45195 04-PU-99	10.555	12,262	12,262
<u>U.S. Department of Education</u>				
<i>Passed through Ohio Department of Education</i>				
Title I, Part A, IASA	C1-SP- 98P	84.010	\$70,000	\$8,433
	C1-SD- 98	84.010	0	22,372
	C1-ST- 98P	84.010	58,789	79,174
	C1-ST- 99P	84.010	130,983	136,250
Total CFDA			<u>259,772</u>	<u>246,229</u>
Special Education Cluster:				
Special Education Grants to States	6B-SF-98P	84.027	79,380	84,977
	6B-SF-99P	84.027	37,330	11,026
	6B-SI-98P	84.027	161,452	313,118
	6B-SII- 98	84.027	27,996	52,799
	6B-SI-99	84.027	1,553,052	1,275,727
Total CFDA			<u>1,859,210</u>	<u>1,737,647</u>
Special Education Preschool Grants	PG-S1-97P	84.173	0	11,410
	PG-S1-99P	84.173	12,168	0
	PG-S7-98	84.173	0	2,351
	PG-S7-99	84.173	10,000	6,967
Total CFDA			<u>22,168</u>	<u>20,728</u>
Total Special Education Cluster			1,881,378	1,758,375
Special Education Personnel Development	PD-A1 98	84.029	11,495	12,081
Project Life	PF-S1-99P	84.158	6,000	6,000
Goals 2000	G2-SP 98P	84.276	0	27,573
	G2-S1-99	84.276	318,610	169,271
Total CFDA			<u>318,610</u>	<u>196,844</u>
<i>Passed through Ohio Department of Health</i>				
Special Education Grants for Infants and Families with Disabilities	1800-A	84.181	101,653	99,709
	18-5-01-F-AN-392	84.181	273,612	273,311
Total CFDA			<u>375,265</u>	<u>373,020</u>
Total U. S. Department of Education			<u>2,852,520</u>	<u>2,592,549</u>
<u>CORPORATION FOR COMMUNITY AND NATIONAL SERVICE</u>				
<i>Passed through Ohio Department of Education</i>				
Learn and Serve America	SV-S4-98P	94.004	0	6,855
	SV-SP-99	94.004	72,800	71,500
Total Learn and Serve			<u>72,800</u>	<u>78,355</u>
Totals			<u>\$2,937,582</u>	<u>\$2,683,166</u>

See accompanying notes to the Schedule of Federal Awards Receipt and Expenditures

Cuyahoga County Educational Service Center

**Notes to Schedule of Federal Awards Receipts And
Expenditures For The Year Ended June 30, 1999**

NOTE A -- BASIS OF PRESENTATION

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

NOTE B - FISCAL AGENT

The Service Center is the fiscal agent for the Cuyahoga Special Education Regional Resource Center, which is the grantee of the major federal program.

CFDA - Catalog of Federal Domestic Assistance.



STATE OF OHIO
OFFICE OF THE AUDITOR

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

Cuyahoga County Educational Service Center
5700 West Canal Road
Valley View, Ohio 44125

To The Governing Board:

We have audited the financial statements of the Cuyahoga County Educational Service Center, Ohio, (the Service Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 12, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated January 12, 2000.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written over a large, stylized "X" mark.

Jim Petro
Auditor of State

January 12, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

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

Cuyahoga County Educational Service Center
5700 West Canal Road
Valley View, Ohio 44125

To the Governing Board:

Compliance

We have audited the compliance of the Cuyahoga County Educational Service Center, Ohio, (the Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. The Service Center's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

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

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 1999.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated January 12, 2000.

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



Jim Retro
Auditor of State

January 12, 2000

**Cuyahoga County Educational Service Center
June 30, 1999**

1. SUMMARY OF AUDITOR'S RESULTS

A-133 §.505

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Sec. .510?</i>	No
(d)(1)(vii)	<i>Major Programs (list)</i>	Special Education Cluster: Title VI-B - CFDA 84.027 Title VI-B - CFDA 84.173 Grants for Infants and Families with Disabilities CFDA 84.181
(d)(1)(viii)	<i>Dollar Threshold: Type A/B Programs</i>	\$300,000/all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	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.



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OFFICE OF THE AUDITOR

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CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

By: *Susan Babbitt*

Date: FEB 03 2000