

**EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
LORAIN COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To The Governing Board:

We have audited the accompanying general-purpose financial statements of the Educational Service Center of Lorain County, 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 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 Educational Service Center of Lorain County, as of June 30, 1999, and the results of its operations and statements of changes in net assets 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 December 20, 1999, 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.

A handwritten signature in black ink, appearing to read "Jim Petro", written over a printed name and title.

JIM PETRO
Auditor of State

December 20, 1999

Educational Service Center of Lorain County

Combined Balance Sheet

All Fund Types and Account Groups

June 30, 1999

	Governmental Fund Types		Fiduciary Fund Types
	General	Special Revenue	Trust and Agency
Assets and Other Debit			
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,164,223	\$377,518	\$2,002,728
Cash and Cash Equivalents in Segregated Accounts	0	0	7,809,964
Receivables:			
Accounts	4,479	0	0
Intergovernmental	222,960	20,784	13,928
Accrued Interest	584	0	0
Fixed Assets	0	0	0
Other Debit			
Amount to be Provided from General Government Resources	0	0	0
Total Assets and Other Debit	\$2,392,246	\$398,302	\$9,826,620
Liabilities, Fund Equity and Other Credits			
Liabilities			
Accounts Payable	\$8,660	\$5,743	\$31,205
Accrued Wages	332,333	15,500	32,392
Compensated Absences Payable	19,209	504	38,972
Undistributed Monies	0	0	7,899,862
Capital Leases Payable	0	0	0
Intergovernmental Payable	379,924	22,245	31,592
Total Liabilities	740,126	43,992	8,034,023
Fund Equity and Other Credits			
Investment in General Fixed Asset	0	0	0
Net Assets	0	0	1,792,597
Fund Balance:			
Reserved for Encumbrances	110,503	42,469	0
Unreserved, Undesignated	1,541,617	311,841	0
Total Fund Equity and Other Credits	1,652,120	354,310	1,792,597
Total Liabilities, Fund Equity and Other Credits	\$2,392,246	\$398,302	\$9,826,620

See accompanying notes to the general purpose financial statements

Account Groups		Totals (Memorandum Only)
General Fixed Assets	General Long-Term Obligations	
\$0	\$0	\$4,544,469
0	0	7,809,964
0	0	4,479
0	0	257,672
0	0	584
505,929	0	505,929
<u>0</u>	<u>408,856</u>	<u>408,856</u>
<u>\$505,929</u>	<u>\$408,856</u>	<u>\$13,531,953</u>
\$0	\$0	\$45,608
0	0	380,225
0	387,258	445,943
0	0	7,899,862
0	12,694	12,694
0	8,904	442,665
<u>0</u>	<u>408,856</u>	<u>9,226,997</u>
505,929	0	505,929
0	0	1,792,597
0	0	152,972
0	0	1,853,458
<u>505,929</u>	<u>0</u>	<u>4,304,956</u>
<u>\$505,929</u>	<u>\$408,856</u>	<u>\$13,531,953</u>

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Educational Service Center of Lorain County

*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	\$2,338,374	\$986,329	\$3,324,703
Interest	140,650	0	140,650
Tuition and Fees	1,848,953	2,034	1,850,987
Contributions and Donations	5,000	51,318	56,318
Customer Services	1,074,897	36,000	1,110,897
Miscellaneous	34,739	248	34,987
Total Revenues	5,442,613	1,075,929	6,518,542
Expenditures			
Current:			
Instruction:			
Regular	452,537	59,184	511,721
Special	411,355	101,903	513,258
Other	0	2,254	2,254
Support Services:			
Pupils	729,465	49,982	779,447
Instructional Staff	2,402,444	231,171	2,633,615
Board of Education	16,494	0	16,494
Administration	277,734	157,184	434,918
Fiscal	218,606	23,096	241,702
Business	197,683	0	197,683
Operation and Maintenance of Plant	82,569	3,513	86,082
Pupil Transportation	0	2,372	2,372
Central	248	1,478	1,726
Operation of Non-Instructional Services	1,461	67,469	68,930
Debt Service:			
Principal Retirement	11,746	0	11,746
Interest and Fiscal Charges	2,669	0	2,669
Intergovernmental	0	354,038	354,038
Total Expenditures	4,805,011	1,053,644	5,858,655
Excess of Revenues Over Expenditures	637,602	22,285	659,887
Other Financing Sources (Uses)			
Operating Transfers In	2,335	5,000	7,335
Operating Transfers Out	(5,000)	(2,335)	(7,335)
Total Other Financing Sources (Uses)	(2,665)	2,665	0
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	634,937	24,950	659,887
Fund Balances at Beginning of Year	1,017,183	329,360	1,346,543
Fund Balances at End of Year	\$1,652,120	\$354,310	\$2,006,430

See accompanying notes to the general purpose financial statements

Educational Service Center of Lorain County

*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)*

All Governmental Fund Types

For the Fiscal Year Ended June 30, 1999

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Intergovernmental	\$2,452,051	\$2,467,056	\$15,005
Interest	113,000	145,389	32,389
Tuition and Fees	1,605,000	1,744,622	139,622
Contributions and Donations	0	5,000	5,000
Customer Services	1,186,922	1,048,113	(138,809)
Miscellaneous	1,400	34,739	33,339
<i>Total Revenues</i>	<i>5,358,373</i>	<i>5,444,919</i>	<i>86,546</i>
Expenditures			
<i>Current:</i>			
<i>Instruction:</i>			
Regular	563,536	546,449	17,087
Special	449,510	436,615	12,895
Other	0	0	0
<i>Support Services:</i>			
Pupils	811,842	809,470	2,372
Instructional Staff	2,907,675	2,721,974	185,701
Board of Education	23,504	17,326	6,178
Administration	348,513	332,156	16,357
Fiscal	249,518	241,870	7,648
Business	245,791	222,234	23,557
Operation and Maintenance of Plant	89,460	85,408	4,052
Pupil Transportation	0	0	0
Central	425	422	3
Operation of Non-Instructional Services	0	0	0
Operation of Non-Instructional Services	1,475	1,461	14
<i>Total Expenditures</i>	<i>5,691,249</i>	<i>5,415,385</i>	<i>275,864</i>
<i>Excess of Revenues Under Expenditures</i>	<i>(332,876)</i>	<i>29,534</i>	<i>362,410</i>
Other Financing Sources (Uses)			
Operating Transfers In	0	2,335	2,335
Advances In	60,000	2,300	(57,700)
Other Financing Uses	(8,000)	0	8,000
Advances Out	(63,100)	0	63,100
Operating Transfers Out	(11,000)	(5,000)	6,000
<i>Total Other Financing Sources (Uses)</i>	<i>(22,100)</i>	<i>(365)</i>	<i>21,735</i>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<i>(354,976)</i>	<i>29,169</i>	<i>384,145</i>
<i>Fund Balances at Beginning of Year</i>	<i>1,121,126</i>	<i>1,121,126</i>	<i>0</i>
<i>Prior Year Encumbrances Appropriated</i>	<i>533,372</i>	<i>533,372</i>	<i>0</i>
<i>Fund Balances at End of Year</i>	<i>\$1,299,522</i>	<i>\$1,683,667</i>	<i>\$384,145</i>

See accompanying notes to the general purpose financial statements

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,010,706	\$965,929	(\$44,777)	\$3,462,757	\$3,432,985	(\$29,772)
0	0	0	113,000	145,389	32,389
2,000	2,034	34	1,607,000	1,746,656	139,656
51,519	51,318	(201)	51,519	56,318	4,799
36,000	36,000	0	1,222,922	1,084,113	(138,809)
0	248	248	1,400	34,987	33,587
<u>1,100,225</u>	<u>1,055,529</u>	<u>(44,696)</u>	<u>6,458,598</u>	<u>6,500,448</u>	<u>41,850</u>
110,612	69,876	40,736	674,148	616,325	57,823
198,307	132,224	66,083	647,817	568,839	78,978
2,254	2,254	0	2,254	2,254	0
65,364	52,822	12,542	877,206	862,292	14,914
281,341	236,788	44,553	3,189,016	2,958,762	230,254
0	0	0	23,504	17,326	6,178
184,661	168,017	16,644	533,174	500,173	33,001
23,267	23,096	171	272,785	264,966	7,819
0	0	0	245,791	222,234	23,557
5,288	5,128	160	94,748	90,536	4,212
2,934	2,372	562	2,934	2,372	562
14,415	3,810	10,605	14,840	4,232	10,608
83,583	65,125	18,458	83,583	65,125	18,458
354,100	354,038	62	355,575	355,499	76
<u>1,326,126</u>	<u>1,115,550</u>	<u>210,576</u>	<u>7,017,375</u>	<u>6,530,935</u>	<u>486,440</u>
<u>(225,901)</u>	<u>(60,021)</u>	<u>165,880</u>	<u>(558,777)</u>	<u>(30,487)</u>	<u>528,290</u>
5,000	5,000	0	5,000	7,335	2,335
0	0	0	60,000	2,300	(57,700)
0	0	0	(8,000)	0	8,000
(2,300)	(2,300)	0	(65,400)	(2,300)	63,100
(2,335)	(2,335)	0	(13,335)	(7,335)	6,000
<u>365</u>	<u>365</u>	<u>0</u>	<u>(21,735)</u>	<u>0</u>	<u>21,735</u>
(225,536)	(59,656)	165,880	(580,512)	(30,487)	550,025
316,994	316,994	0	1,438,120	1,438,120	0
51,848	51,848	0	585,220	585,220	0
<u>\$143,306</u>	<u>\$309,186</u>	<u>\$165,880</u>	<u>\$1,442,828</u>	<u>\$1,992,853</u>	<u>\$550,025</u>

Educational Service Center of Lorain County

Combined Statement of Changes in Net Assets

Fiduciary Fund Type

For the Fiscal Year Ended June 30, 1999

	<u>External Investment Trust</u>
Revenues	
Interest	\$58,590
Expenses	
Operating Expenses	<u>0</u>
<i>Net Increase in Assets Resulting from Operations</i>	58,590
Distribution to Participants	(58,590)
Capital Transactions	<u>310,343</u>
<i>Total Increase in Net Assets</i>	310,343
<i>Net Assets Beginning of Year</i>	<u>1,482,254</u>
<i>Net Assets End of Year</i>	<u><u>\$1,792,597</u></u>

See accompanying notes to the general purpose financial statements

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
June 30, 1999

Note 1 - Description of the Educational Service Center

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

The Educational Service Center operates under a locally-elected five-member Governing Board and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's facility and staff who provide services to 25,771 students in the greater Lorain County area.

Reporting Entity

For financial reporting purposes, the reporting entity is defined to include the primary government, component units, and other organizations consistent with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", that are included to insure that the general purpose financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service Center.

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

The following entities which perform activities within the Educational Service Center's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the Educational Service Center is not financially accountable for these entities nor are they fiscally dependent on the Educational Service Center.

Special Education Regional Resource Center (SERRC) - SERRC is a three county special education service which selects its own board, adopts its own budget and receives Federal and State grants for its operation. The Treasurer of the Educational Service Center serves as fiscal agent for SERRC which is accounted for as an agency fund.

The Educational Service Center is associated with certain organizations which are defined as jointly governed organizations and public entity risk pools. These organizations are presented in Note 8 and 9 to the general purpose financial statements. These organizations are

Lake Erie Educational Computer Association (LEECA)
Ohio School Boards Association Workers Compensation Group Rating Program
Lake Erie Regional Council of Governments (LERC)

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
June 30, 1999

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.

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 expendable trust and agency funds. The Educational Service Center has an investment trust fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
June 30, 1999

Account Groups:

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

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

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

B. Measurement Focus and Basis of Accounting

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

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made. The modified accrual basis of accounting is followed for the governmental and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after year end. In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, customer services and grants.

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

The investment trust fund reports transactions and balances using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operation of the fund 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 for the Educational Service Center is prescribed by Section 3317.11 of the Ohio Revised Code. Annually, on or before a date designated by the State Board of Education, each Educational Service Center prepares a budget of operating expenses for the ensuing year on forms prepared and furnished by the State Board of Education and certifies the budget to the State Board of Education, together with such other information as the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. The State Board of Education reviews the budget.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
June 30, 1999

Estimated Revenues:

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

Appropriations:

The annual appropriation resolution must be 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 Governing 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 Governing Board. The Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Board of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances:

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

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents and Investments

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

During fiscal year 1998, investments were limited to certificates of deposit, STAR Ohio, the State Treasurer's Investment Pool, repurchase agreements, treasury notes, commercial paper and federal agency securities. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
June 30, 1999

prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center has invested funds in the State Treasury Asset reserve of Ohio ("STAR Ohio") during fiscal year 1999. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 1999.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 1999, the general fund received interest earned in the amount of \$140,650.

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

E. Inventory

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

F. Fixed Assets and Depreciation

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

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

G. Pass-Through Grants

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

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

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Title VI-B

Title VI

Preschool Grant for the Handicapped

Title I

Head Start

Educational Management Information System

Public School Preschool Grant

Education of Homeless Children

Jobs for Ohio Graduates

Learn and Serve Ohio

Personnel Development

Grants and entitlements amounted to 51 percent of the Educational Service Center's operating revenue during the 1999 fiscal year.

I. Interfund Assets/Liabilities

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

J. Compensated Absences

The liability for compensated absences is based on the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy.

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

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

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/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances. The Educational Service Center was not required to set aside any reserves required by House Bill 412.

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

Note 3 - Budgetary Basis of Accounting

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

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
 June 30, 1999

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

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

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

	<i>General</i>	<i>Special Revenue</i>
<i>GAAP Basis</i>	\$634,938	\$172,641
Net Adjustments for Revenue Accruals	2,307	(384)
Advance In	2,300	2,300
Net Adjustments for Expenditure Accruals	(240,323)	(34,214)
Advance Out	0	(11,350)
Adjustment for Encumbrances	(370,053)	(42,922)
<i>Budget Basis</i>	\$29,169	\$86,071

Note 4 - Deposits and Investments

State statutes require the classification of moneys held by the Educational Service Center into three categories:

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

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

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

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
June 30, 1999

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily; and that the term of the agreement does 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 (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
 June 30, 1999

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$445,458 and the bank balance was \$839,019. \$200,000 was covered by federal depository insurance and \$639,019 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

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

	<u>Category 3</u>	<u>Carrying Value</u>	<u>Fair Market Value</u>
United States Treasury Notes	\$673,354	\$673,354	\$667,148
Commercial Paper	1,326,606	1,326,606	1,326,606
Federal Home Loan Bank	1,449,679	1,449,679	1,443,838
Federal Home Loan Mortgage Bonds	2,117,992	2,117,992	2,126,265
Federal National Mortgage Association Bonds	4,714,411	4,714,411	4,672,223
Federal Farm Bank Credit Bonds	474,900	474,900	471,818
Money Market Mutual Funds	200,693	200,693	200,693
Repurchase Agreements	160,000	160,000	160,000
STAR Ohio	0	791,340	791,340
<i>Total Investments</i>	<u>\$11,117,635</u>	<u>\$11,908,975</u>	<u>\$11,859,931</u>

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

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
 June 30, 1999

	<i>Cash and Cash Equivalents/Deposits</i>	<i>Investments</i>
<i>GASB Statement No. 9</i>	\$12,354,433	\$0
Investments which are part of the cash management pool:		
United States Treasury Notes	(673,354)	673,354
Commercial Papers	(1,326,606)	1,326,606
Federal Home Loan Bank	(1,449,679)	1,449,679
Federal Home Loan Mortgage Bonds	(2,117,992)	2,117,992
Federal National Mortgage Association Bonds	(4,714,411)	4,714,411
Federal Farm Credit	(474,900)	474,900
Money Market Mutual Funds	(200,693)	200,693
Repurchase Agreements	(160,000)	160,000
STAR Ohio	(791,340)	791,340
<i>GASB Statement No. 3</i>	\$445,458	\$11,908,975

Note 5 - Receivables

Receivables at June 30, 1999 consisted of accounts and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

<i>Intergovernmental Receivables</i>	<i>Amounts</i>
<i>General Fund:</i>	
Tuition and Fees	\$144,272
Customer Services	78,688
Total General Fund	222,960
<i>Title I Special Revenue Fund</i>	20,784
<i>LEECA Agency Fund</i>	13,928
Total Intergovernmental Receivables	\$257,672

Note 6 - External Investment Pool

By statute, the Educational Service Center serves as fiscal agent for a legally separate entity. The Educational Service Center pools money of this entity with the Educational Service Center's for investment purposes. The Educational Service Center cannot allocate its investment between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The fair value and carrying amounts for both the internal and external investment pools are disclosed in Note 4, "Deposits and Investments". Condensed financial information for the investment pool follows:

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
 June 30, 1999

Statement of Net Assets
 June 30, 1999

Assets	
Equity in Pooled Cash and Cash Equivalents	\$4,544,469
Interest Receivable	584
<i>Total Assets</i>	<u><u>\$4,545,053</u></u>
Net Asset Held in Trust for Pool Participants	
Internal Portion	\$2,673,851
External Portion	1,871,202
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u><u>\$4,545,053</u></u>

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

Revenues	
Interest	\$199,240
Expenses	
Operating Expenses	0
<i>Net Increase in Assets Resulting from Operations</i>	199,240
Distribution to Participants	(198,656)
Capital Transactions	858,054
<i>Total Increase in Net Assets</i>	858,638
<i>Net Assets Beginning of Year</i>	<u>3,686,415</u>
<i>Net Assets End of Year</i>	<u><u>4,545,053</u></u>

Note 7 - State Funding

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

Part (B) of the budget is funded in the following way: six dollars and fifty cents 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, twenty-nine dollars 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 \$35.50 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Note 8 - Jointly Governed Organization

Lake Erie Educational Computer Association

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

Note 9 - Public Entity Risk Pools

A. Insurance Purchasing Pool

The Educational Service Center 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.

B. Risk Sharing Pool

Health, dental, and vision insurance is available to most employees through the Lake Erie Regional Council of Governments (LERC). The program is a shared risk pool comprised of twelve Lorain County school districts and the Educational Service Center. Rates are set annually following an independent review and calculation process. The Educational Service Center pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating members. Claims are paid for all participants regardless of claim flow. Upon termination, all Educational Service Center claims would be paid without regard to the Educational Service Center's account balance. Financial information about LERC can be obtained by contacting the Treasurer of the Educational Service Center of Lorain County, 1885 Lake Avenue, Elyria, Ohio 44035, who serves as fiscal agent.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
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Note 10 - Fixed Assets

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

	<i>Balance</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance</i>
	<i>June 30, 1998</i>	<i>June 30, 1998</i>	<i>June 30, 1998</i>	<i>June 30, 1999</i>
Furniture and Equipment	\$485,354	\$40,720	(\$20,145)	\$505,929

Note 11 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the Educational Service Center contracted with Indiana Insurance Company for property and general liability insurance. Leased vehicles are covered by Nationwide Insurance and Indiana Insurance Company and have a \$50 deductible for comprehensive and a \$250 deductible for collision. The vehicle liability insurance is on an occurrence basis with a \$1,000,000 combined single limit. Claims have never exceeded this coverage.

Professional liability is protected by the Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$2,000,000 single occurrence limit and a \$1,000 deductible.

For fiscal year 1999, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group rating Program, an insurance purchasing pool (Note 9). The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members are calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

Health, dental, and vision insurance is available to most employees through the Lake Erie Regional Council of Governments (LERC). The program is a shared risk pool comprised of twelve Lorain County school districts and the Educational Service Center. Rates are set annually following an independent review and calculation process. The Service Center pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating members. The LERC Board of Directors has the right to return moneys to an exiting member subsequent to settlement of all expenses and claims. The Service Center pays 88 percent of the applicable premium with the remaining 12 percent being deducted from the employees pay.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
June 30, 1999

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 1999, 7.7 percent was the portion used to fund pension obligations. The contribution rates of plan members and employees are established and may be amended, up to statutory maximum amounts by the SERS Retirement Board. The Educational Service Center's required contributions to SERS for the years ending June 30, 1999, 1998, and 1997 were \$191,667, \$158,040, and \$134,858, respectively. 100 percent was contributed for fiscal years 1999, 1998 and 1997.

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Prior to July 1, 1998, the portion 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 Educational Service Center's required contributions to STRS for the years ending June 30, 1999, 1998, and 1997 were \$406,366, \$375,455, and \$334,721, respectively. For fiscal year 1999, nothing was contributed and 100 percent was contributed for fiscal years 1998 and 1997. \$406,366 represents the unpaid contribution for fiscal year 1999 and is recorded as a liability within the respective funds and the general long-term obligations account group.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose social security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, four of the board members have elected social security. The Educational Service Center's liability is 6.2 percent of the wages paid to these board members.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
June 30, 1999

Note 13 - 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 Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board allocated employer contributions equal to eight percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$232,209, during the 1999 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,156 million at June 30, 1998. 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 years of qualifying service credit, 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.

For this fiscal year, 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. The surcharge rate added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. For fiscal year 1999, the minimum pay has been established at \$12,400.

The target level for the health care reserves is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998, 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 participating currently receiving health care benefits. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$111,830, during the 1999 fiscal year.

Note 14 - Employee Benefits

A. *Compensated Absences*

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

Educational Service Center of Lorain County
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accumulation of 120 days, and one-third of accumulated sick leave beyond 120 days, to a maximum accumulation of 210 days. Maximum payment may not exceed 60 days.

B. Life Insurance

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

Note 15 - Capitalized Leases

In prior years, the Educational Service Center has entered into capitalized leases for the acquisition of printing and telephone equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the general purpose financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Fixed assets acquired by lease have been capitalized in the general fixed assets account group in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group.

The following is an analysis of equipment leased under capital leases as of June 30, 1999:

	<i>General Fixed Assets</i>
Computer Equipment	\$25,409
Telephone Equipment	25,650
<i>Carrying Value</i>	\$51,059

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 1999.

<i>Fiscal Year Ending June 30, 1999</i>	<i>General Long-Term Obligations</i>
2000	9,927
2001	4,293
<i>Total Minimum Lease Payments</i>	14,220
<i>Less: Amount Representing Interest</i>	(1,526)
<i>Present Value of Minimum Lease Payments</i>	\$12,694

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

	<i>Principal Outstanding 6/30/98</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding 6/30/99</i>
<i>Capital Leases:</i>				
Computer Equipment	\$17,291	\$0	\$6,069	\$11,222
Telephone Equipment	7,149	0	5,677	1,472
<i>Total Capital Leases</i>	<u>24,440</u>	<u>0</u>	<u>11,746</u>	<u>12,694</u>
<i>Intergovernmental Payables</i>	<u>7,156</u>	<u>8,904</u>	<u>7,156</u>	<u>8,904</u>
<i>Compensated Absences</i>	<u>408,146</u>	<u>0</u>	<u>20,888</u>	<u>387,258</u>
<i>Total General Long-Term Obligations</i>	<u>\$439,742</u>	<u>\$8,904</u>	<u>\$39,790</u>	<u>\$408,856</u>

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

Note 17 - 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.

Note 18 - School Funding Issue

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 that 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 \$2,452,478 of school foundation support. As of the date of these financial statements, the District is unable to determine what effect, if any, this decision will have on its future state funding under this Program.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly 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

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
June 30, 1999

Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Perry County Common Pleas Court has been stayed by the Ohio Supreme Court, and, as such, school district 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 19 - Year 2000 Issue

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

The Educational Service Center has completed an inventory of computer systems and other electronic equipment that may be affected by the Year 2000 issue and that are necessary to conducting operations and has identified such systems as accounting/financial reporting, payroll and employee benefits, and reporting educational statistics.

The Lake Erie Educational Computer Association State Software Development Team has indicated that:

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

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

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

The State of Ohio distributes a substantial sum of money to the Educational Service Center in the form of "Foundation" and federal and state grant payments. The state is responsible for remediating its fund distribution system.

Utility services to the Educational Service Center (electric, gas, water and sewer) are vendor provided. These vendors are responsible for remediating these systems and any costs associated. The Educational Service Center has not obtained assurances from these vendors regarding Year 2000 compliance.

Because of the unprecedented nature of the Year 2000 issue, its effects and the related remediation efforts will not be fully determinable until Year 2000 and thereafter. Management cannot assure that the Educational Service Center is or will be Year 2000 compliant, that the Educational Service Center's remediation efforts will be successful in whole or in part, or that parties with whom the Educational Service Center does business will be Year 2000 compliant.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1999**

<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Pass Through Entity Number</u>	<u>CFDA Number</u>	<u>Receipts</u>	<u>Disbursements</u>
U.S. DEPARTMENT OF EDUCATION				
Passed through Ohio Department of Education				
Title I Grants to Local Educational Agencies	C1-S1 98	84.010	\$0	\$3,367
	C1-S1 99	84.010	3,416	205
	C1-SD 98	84.010	32,564	35,397
	C1-SD 99	84.010	18,013	3,391
Total CFDA			<u>53,993</u>	<u>42,360</u>
Special Education Personnel Development	PD-A1 98	84.029	0	4,959
Total CFDA			<u>0</u>	<u>4,959</u>
Education for Homeless Children and Youth	HC-S1 98	84.196	36,096	28,195
	HC-S1 99	84.196	3,899	16,679
Total CFDA			<u>39,995</u>	<u>44,874</u>
Eisenhower Professional Development	MS-S1 97	84.281	0	5,257
	MS-S1 98	84.281	28,400	22,539
	MS-S1 99	84.281	12,517	0
Total CFDA			<u>40,917</u>	<u>27,796</u>
Special Education Cluster:				
Special Education Grants to States	6B-II 98P	84.027	0	27,312
	6B-S1 98	84.027	107,191	171,635
	6B-S1 99	84.027	540,027	459,735
Total CFDA			<u>647,218</u>	<u>658,682</u>
Special Education - Preschool Grants	PG-S1 98	84.173	5,386	44,363
	PG-S1 99	84.173	38,881	21,765
	PG-S3 98	84.173	0	23,780
	PG-S3 99	84.173	63,600	54,606
	PG-S3 98	84.173	0	1,950
	PG-S7 99	84.173	10,000	8,040
Total CFDA			<u>117,867</u>	<u>154,504</u>
Total Special Education Cluster			765,085	813,186
Project Life	PF-S1-99	84.158	6,000	6,000
Total CFDA			<u>6,000</u>	<u>6,000</u>
Goals 2000	G2-S3-2000	84.276	88,000	33,727
Total CFDA			<u>88,000</u>	<u>33,727</u>
Total U.S. Department of Education			<u>993,980</u>	<u>972,902</u>
CORPORATION FOR COMMUNITY AND NATIONAL SERVICE				
Passed through Ohio Department of Education				
Learn and Serve America	SV-S2 98	94.004	15,000	2,445
Total Federal Assistance			<u>\$1,008,980</u>	<u>\$975,347</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

**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 District 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 Educational Service Center is the fiscal agent for the Lorain Special Education Regional Resource Center, which is the grantee of the major federal program.

CFDA - Catalog of Federal Domestic Assistance.



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

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

To The Governing Board:

We have audited the financial statements of the Educational Service Center of Lorain County, Ohio, (the Service Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated December 20, 1999. 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 December 20, 1999.

This report is intended for the information and use of management, Board of Education, 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", is written over a large, stylized "X" mark.

JIM PETRO
Auditor of State

December 20, 1999



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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**

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

To the Governing Board:

Compliance

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

We conducted our audit of compliance in accordance with 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 program 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 the 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 the major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of Education, 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", is written over a circular stamp or seal.

JIM PETRO
Auditor of State

December 20, 1999

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

**SCHEDULE OF FINDINGS
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
(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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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

LORAIN COUNTY

CLERK'S CERTIFICATION

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

By: *Susan Babbitt*

Date: JAN 11 2000