



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**EDUCATIONAL SERVICE CENTER
OF LORAIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
General-Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types	8
Statement of Changes in Net Assets - Fiduciary Fund Type	10
Notes to the General Purpose Financial Statements	11
Schedule of Federal Awards Receipts and Expenditures	31
Notes to the Schedule of Federal Awards Receipts and Expenditures	32
Report on Compliance and on Internal Control Required By <i>Government Auditing Standards</i>	33
Report on Compliance with Requirements Applicable to each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	35
Schedule of Findings	37

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REPORT OF INDEPENDENT ACCOUNTANTS

Educational Service Center of 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, (Service Center) as of and for the year ended June 30, 2000, 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, Ohio, as of June 30, 2000, and the results of its operations and the statement 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, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements 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

December 20, 2000

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Educational Service Center of Lorain County
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2000

	Governmental Fund Types		Fiduciary Fund Types
	General	Special Revenue	Trust and Agency
Assets and Other Debit			
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,626,646	\$603,954	\$2,341,289
Cash and Cash Equivalents in Segregated Accounts	0	0	7,411,555
Receivables:			
Accounts	1,373	0	0
Intergovernmental	85,822	5,950	3,878
Accrued Interest	1,937	0	0
Interfund	6,800	0	0
Fixed Assets	0	0	0
Other Debit			
Amount to be Provided from General Government Resources	0	0	0
<i>Total Assets and Other Debit</i>	<i>\$2,722,578</i>	<i>\$609,904</i>	<i>\$9,756,722</i>
Liabilities, Fund Equity and Other Credits			
Liabilities			
Accounts Payable	\$4,978	\$5,467	\$20,941
Accrued Wages	337,837	23,238	39,766
Compensated Absences Payable	31,141	1,599	27,408
Interfund Payable	0	6,800	0
Intergovernmental Payable	381,664	31,623	45,176
Undistributed Monies	0	0	7,561,796
Capital Leases Payable	0	0	0
<i>Total Liabilities</i>	<i>755,620</i>	<i>68,727</i>	<i>7,695,087</i>
Fund Equity and Other Credits			
Investment in General Fixed Assets	0	0	0
Net Assets	0	0	2,061,635
Fund Balance:			
Reserved for Encumbrances	568,420	194,715	0
Unreserved, Undesignated	1,398,538	346,462	0
<i>Total Fund Equity and Other Credits</i>	<i>1,966,958</i>	<i>541,177</i>	<i>2,061,635</i>
<i>Total Liabilities, Fund Equity and Other Credits</i>	<i>\$2,722,578</i>	<i>\$609,904</i>	<i>\$9,756,722</i>

See accompanying notes to the general purpose financial statements

Account Groups		Totals
General Fixed Assets	General Long-Term Obligations	(Memorandum Only)
\$0	\$0	\$5,571,889
0	0	7,411,555
0	0	1,373
0	0	95,650
0	0	1,937
0	0	6,800
543,296	0	543,296
<u>0</u>	<u>332,448</u>	<u>332,448</u>
<u>\$543,296</u>	<u>\$332,448</u>	<u>\$13,964,948</u>
\$0	\$0	\$31,386
0	0	400,841
0	319,592	379,740
0	0	6,800
0	8,764	467,227
0	0	7,561,796
<u>0</u>	<u>4,092</u>	<u>4,092</u>
<u>0</u>	<u>332,448</u>	<u>8,851,882</u>
543,296	0	543,296
0	0	2,061,635
0	0	763,135
<u>0</u>	<u>0</u>	<u>1,745,000</u>
<u>543,296</u>	<u>0</u>	<u>5,113,066</u>
<u>\$543,296</u>	<u>\$332,448</u>	<u>\$13,964,948</u>

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, 2000

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Revenues			
Intergovernmental	\$2,289,627	\$1,269,378	\$3,559,005
Interest	206,263	0	206,263
Tuition and Fees	1,409,343	2,885	1,412,228
Contributions and Donations	1,430	67,502	68,932
Customer Services	1,470,682	211,102	1,681,784
Miscellaneous	1,281	0	1,281
<i>Total Revenues</i>	<u>5,378,626</u>	<u>1,550,867</u>	<u>6,929,493</u>
Expenditures			
Current:			
Instruction:			
Regular	390,139	219,424	609,563
Special	452,596	152,956	605,552
Support Services:			
Pupils	719,010	75,820	794,830
Instructional Staff	2,625,206	589,695	3,214,901
Board of Education	21,265	0	21,265
Administration	328,543	197,942	526,485
Fiscal	238,155	22,860	261,015
Business	215,941	0	215,941
Operation and Maintenance of Plant	61,427	18,854	80,281
Pupil Transportation	0	1,830	1,830
Central	273	78,077	78,350
Operation of Non-Instructional Services	1,305	1,877	3,182
Intergovernmental	0	4,664	4,664
Debt Service:			
Principal Retirement	8,602	0	8,602
Interest and Fiscal Charges	1,326	0	1,326
<i>Total Expenditures</i>	<u>5,063,788</u>	<u>1,363,999</u>	<u>6,427,787</u>
<i>Excess of Revenues Over Expenditures</i>	314,838	186,868	501,706
<i>Fund Balances at Beginning of Year</i>	<u>1,652,120</u>	<u>354,309</u>	<u>2,006,429</u>
<i>Fund Balances at End of Year</i>	<u>\$1,966,958</u>	<u>\$541,177</u>	<u>\$2,508,135</u>

See accompanying notes to the general purpose financial statements

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Educational Service Center of Lorain County
*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)*
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2000

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Intergovernmental	\$2,368,995	\$2,374,760	\$5,765
Interest	199,500	204,910	5,410
Tuition and Fees	1,446,569	1,451,231	4,662
Contributions and Donations	0	1,430	1,430
Customer Services	1,454,022	1,483,905	29,883
Miscellaneous	1,300	1,281	(19)
<i>Total Revenues</i>	<u>5,470,386</u>	<u>5,517,517</u>	<u>47,131</u>
Expenditures			
Current:			
Instruction:			
Regular	509,410	456,792	52,618
Special	497,428	489,202	8,226
Support Services:			
Pupils	821,784	814,662	7,122
Instructional Staff	2,971,987	2,913,981	58,006
Board of Education	34,810	33,737	1,073
Administration	366,301	363,519	2,782
Fiscal	238,368	236,796	1,572
Business	234,817	232,279	2,538
Operation and Maintenance of Plant	81,032	79,002	2,030
Pupil Transportation	0	0	0
Central	600	274	326
Operation of Non-Instructional Services	1,500	1,448	52
Intergovernmental	0	0	0
<i>Total Expenditures</i>	<u>5,758,037</u>	<u>5,621,692</u>	<u>136,345</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(287,651)</u>	<u>(104,175)</u>	<u>183,476</u>
Other Financing Sources (Uses)			
Operating Transfers In	0	0	0
Advances In	93,100	0	(93,100)
Other Financing Uses	(12,404)	0	12,404
Advances Out	(97,700)	(6,800)	90,900
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(17,004)</u>	<u>(6,800)</u>	<u>10,204</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(304,655)</u>	<u>(110,975)</u>	<u>193,680</u>
<i>Fund Balances at Beginning of Year</i>	1,683,668	1,683,668	0
<i>Prior Year Encumbrances Appropriated</i>	<u>480,555</u>	<u>480,555</u>	<u>0</u>
<i>Fund Balances at End of Year</i>	<u><u>\$1,859,568</u></u>	<u><u>\$2,053,248</u></u>	<u><u>\$193,680</u></u>

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)
\$1,285,883	\$1,284,212	(\$1,671)	\$3,654,878	\$3,658,972	\$4,094
0	0	0	199,500	204,910	5,410
2,864	2,885	21	1,449,433	1,454,116	4,683
66,500	67,502	1,002	66,500	68,932	2,432
211,102	211,102	0	1,665,124	1,695,007	29,883
0	0	0	1,300	1,281	(19)
<u>1,566,349</u>	<u>1,565,701</u>	<u>(648)</u>	<u>7,036,735</u>	<u>7,083,218</u>	<u>46,483</u>
288,982	285,927	3,055	798,392	742,719	55,673
200,962	181,301	19,661	698,390	670,503	27,887
87,152	80,796	6,356	908,936	895,458	13,478
684,439	666,885	17,554	3,656,426	3,580,866	75,560
0	0	0	34,810	33,737	1,073
205,221	199,225	5,996	571,522	562,744	8,778
22,906	22,845	61	261,274	259,641	1,633
0	0	0	234,817	232,279	2,538
17,277	17,189	88	98,309	96,191	2,118
2,023	1,830	193	2,023	1,830	193
79,986	78,612	1,374	80,586	78,886	1,700
8,993	4,756	4,237	10,493	6,204	4,289
11,441	4,664	6,777	11,441	4,664	6,777
<u>1,609,382</u>	<u>1,544,030</u>	<u>65,352</u>	<u>7,367,419</u>	<u>7,165,722</u>	<u>201,697</u>
<u>(43,033)</u>	<u>21,671</u>	<u>64,704</u>	<u>(330,684)</u>	<u>(82,504)</u>	<u>248,180</u>
12,131	0	(12,131)	12,131	0	(12,131)
6,800	6,800	0	99,900	6,800	(93,100)
0	0	0	(12,404)	0	12,404
0	0	0	(97,700)	(6,800)	90,900
<u>(12,131)</u>	<u>0</u>	<u>12,131</u>	<u>(12,131)</u>	<u>0</u>	<u>12,131</u>
<u>6,800</u>	<u>6,800</u>	<u>0</u>	<u>(10,204)</u>	<u>0</u>	<u>10,204</u>
(36,233)	28,471	64,704	(340,888)	(82,504)	258,384
309,186	309,186	0	1,992,854	1,992,854	0
68,329	68,329	0	548,884	548,884	0
<u>\$341,282</u>	<u>\$405,986</u>	<u>\$64,704</u>	<u>\$2,200,850</u>	<u>\$2,459,234</u>	<u>\$258,384</u>

Educational Service Center of Lorain County
Statement of Changes in Net Assets
Fiduciary Fund Type
For the Fiscal Year Ended June 30, 2000

	<u>External Investment Trust</u>
Revenues	
Interest	\$72,291
Expenses	
Operating Expenses	<u>0</u>
<i>Net Increase in Assets Resulting from Operations</i>	72,291
Distribution to Participants	(72,291)
Capital Transactions	<u>269,038</u>
<i>Total Increase in Net Assets</i>	269,038
<i>Net Assets Beginning of Year</i>	<u>1,792,597</u>
<i>Net Assets End of Year</i>	<u><u>\$2,061,635</u></u>

See accompanying notes to the general purpose financial statements

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 Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's facility and staff who provide services to 26,160 students in local, city and exempted village school districts in Lorain County.

Reporting Entity

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

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

The 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 direct Federal and State grants for its operation. 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 a jointly governed organization 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)
The Ohio School Boards Association Workers Compensation Group Rating Program (WCGRP)
Lake Erie Regional Council of Governments (LERC)

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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 and the accrual basis of accounting.

C. Budgetary Data

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

Estimated Revenues:

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

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Budgetary Data (Continued)

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 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 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

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 2000, investments were limited to certificates of deposit, STAR Ohio, the State Treasurer's Investment Pool, repurchase agreements, treasury notes, commercial paper and federal agency securities. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center has invested funds in the State Treasury Asset reserve of Ohio ("STAR Ohio") during fiscal year 2000. 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, 2000.

Note 2 - Summary of Significant Accounting Policies (Continued)

D. Cash and Cash Equivalents (Continued)

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2000, the general fund received interest earned in the amount of \$206,263.

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, 2000, 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.

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:

Note 2 - Summary of Significant Accounting Policies (Continued)

H. Intergovernmental Revenues (Continued)

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 52 percent of the Educational Service Center's operating revenue during the 2000 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.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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 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:

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:

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
 June 30, 2000

Note 3 - Budgetary Basis of Accounting (Continued)

*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>	\$314,838	\$186,868
Net Adjustments for Revenue Accruals	138,891	14,834
Advance In	0	6,800
Net Adjustments for Expenditure Accruals	15,494	20,149
Advance Out	(6,800)	0
Adjustment for Encumbrances	(573,398)	(200,180)
<i>Budget Basis</i>	(\$110,975)	\$28,471

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).

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;

Note 4 - Deposits and Investments (Continued)

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.

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$1,531,328 and the bank balance was \$2,030,627. \$550,627 was covered by federal depository insurance and \$1,380,000 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
 June 30, 2000

Note 4 - Deposits and Investments (Continued)

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

	<i>Interest Rates</i>	<i>Category 3</i>	<i>Carrying Value</i>	<i>Fair Market Value</i>
United States Treasury Notes	4.625	\$673,354	\$673,354	\$669,632
Commercial Papers		1,158,965	1,158,965	1,168,995
Federal Home Loan Bank	4.89-6.625	1,880,828	1,880,828	1,874,273
Federal Home Loan Mortgage Bonds	5.0-6.27	773,853	773,853	767,152
Federal National Mortgage Association Bonds	5.25-6.41	5,093,403	5,093,403	5,018,610
Federal Farm Bank Credit Bonds	5.125	474,900	474,900	473,765
Money Market Mutual Funds	5.571	80,286	80,286	80,286
Repurchase Agreements	6	705,000	705,000	705,000
STAR Ohio	6.35	0	611,527	611,527
<i>Total Investments</i>		<u>\$10,840,589</u>	<u>\$11,452,116</u>	<u>\$11,369,240</u>

The federal agency securities have maturities ranging from August 14, 2000 to November 29, 2001. The commercial paper has maturities ranging from July 6, 2000 to August 24, 2000.

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

	<i>Cash and Cash Equivalents/Deposits</i>	<i>Investments</i>
<i>GASB Statement No. 9</i>	\$12,983,444	\$0
Investments which are part of the cash management pool:		
United States Treasury Notes	(673,354)	673,354
Commercial Papers	(1,158,965)	1,158,965
Federal Home Loan Bank	(1,880,828)	1,880,828
Federal Home Loan Mortgage Bonds	(773,853)	773,853
Federal National Mortgage Association Bonds	(5,093,403)	5,093,403
Federal Farm Credit	(474,900)	474,900

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
 June 30, 2000

Money Market Mutual Funds	(80,286)	80,286
Repurchase Agreements	(705,000)	705,000
STAR Ohio	(611,527)	611,527
<i>GASB Statement No. 3</i>	\$1,531,328	\$11,452,116

Note 5 - Receivables

Receivables at June 30, 2000 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>	<u><i>Amounts</i></u>
<i>General Fund:</i>	
Tuition and Fees	\$62,443
Customer Services	23,379
<i>Total General Fund</i>	85,822
<i>Title I Special Revenue Fund</i>	5,950
<i>LERCC Agency Fund</i>	3,878
<i>Total Intergovernmental Receivables</i>	\$95,650

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.

Condensed financial information for the investment pool follows:

Statement of Net Assets
 June 30, 2000

Assets

Equity in Pooled Cash and Cash Equivalents	\$5,571,889
Interest Receivable	1,937
<i>Total Assets</i>	\$5,573,826

Net Asset Held in Trust for Pool Participants

Internal Portion	\$3,442,800
External Portion	2,131,026
<i>Total Net Assets Held in Trust for Pool Participants</i>	\$5,573,826

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
 June 30, 2000

Note 6 - External Investment Pool (Continued)

Statement of Changes in Net Assets
For Fiscal Year Ended June 30, 2000

Revenues	
Interest	\$278,554
Expenses	
Operating Expenses	0
<i>Net Increase in Assets Resulting from Operations</i>	278,554
Distribution to Participants	(276,617)
Capital Transactions	1,026,836
<i>Total Increase in Net Assets</i>	1,028,773
<i>Net Assets Beginning of Year</i>	4,545,053
<i>Net Assets End of Year</i>	\$5,573,826

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

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 counterparty, or by its trust department or agent but not in the Educational Service Center's name. The investment in STAR Ohio is not classified by degree of credit risk since these investments are not evidenced by securities that exist in physical or book entry form.

	<i>Interest Rates</i>	<i>Category 3</i>	<i>Carrying Value</i>	<i>Fair Market Value</i>
<i>Internal Portion</i>				
United States Treasury Notes	4.625	\$121,213	\$121,213	\$120,543
Commercial Paper		256,731	256,731	258,953
Federal Home Loan Bank	4.89-6.625	329,267	329,267	328,119
Federal Home Loan Mortgage Bonds	5.0-6.27	138,664	138,664	137,463
Federal National Mortgage Association	5.25-6.27	1,560,339	1,560,339	1,537,427
Federal Farm Bank Credit Bonds	5.125	52,064	52,064	51,940
Money Market Mutual Funds	5.571	19,102	19,102	19,102
Repurchase Agreements	6.0	177,056	177,056	177,056
STAR Ohio	6.35	380,838	380,838	380,838
<i>Total Investments</i>		\$3,035,274	\$3,035,274	\$3,011,441

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
 June 30, 2000

Note 6 - External Investment Pool (Continued)

	<i>Interest Rates</i>	<i>Category 3</i>	<i>Carrying Value</i>	<i>Fair Market Value</i>
<i>External Portion</i>				
United States Treasury Notes	4.625	\$75,065	\$75,065	\$74,650
Commercial Paper		158,989	158,989	160,365
Federal Home Loan Bank	4.89-6.625	203,909	203,909	203,198
Federal Home Loan Mortgage Bonds	5.0-6.27	85,872	85,872	85,128
Federal National Mortgage Association	5.25-6.27	966,290	966,290	496,739
Federal Farm Bank Credit Bonds	5.125	32,242	32,242	32,165
Money Market Mutual Funds	5.571	11,829	11,829	11,829
Repurchase Agreements	6.0	109,648	109,648	109,648
STAR Ohio	6.35	235,846	235,846	235,846
<i>Total Investments</i>		<u>\$1,879,690</u>	<u>\$1,879,690</u>	<u>\$1,409,568</u>

Deposits: The carrying amount of deposits of the internal portion of the investment pool was \$405,590. The carrying amount of deposits of the external portion of the investment pool was \$251,335. The bank balances were \$711,411 and \$442,318 respectively. \$313,814 was covered by federal depository insurance and \$839,915 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.

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, thirty-seven 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 \$43.50 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Note 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 can be obtained by writing the Treasurer of the Educational Service Center of Lorain County, 1885 Lake Ave., 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 the Educational Service Center claims would be paid without regard to the Educational Service Center's account balance. Financial information can be obtained by writing the Treasurer of the Educational Service Center of Lorain County, 1885 Lake Ave., Elyria, Ohio 44035 who serves as the fiscal agent.

Note 10 - Fixed Assets

A summary of the changes in general fixed assets during fiscal year 2000 follows:

	<i>Balance</i>		<i>Balance</i>
	<i>June</i>	<i>Additions</i>	<i>June 30, 2000</i>
	<i>30, 1999</i>	<i>Deletions</i>	
Furniture and Equipment	\$505,930	\$68,534	(\$31,168) \$543,296

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 2000, 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.

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 2000, 5.5 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, 2000, 1999, and 1998 were \$222,542, \$191,667, and \$158,040, respectively. 100 percent was contributed for fiscal years 2000, 1999 and 1998.

Note 12 - Defined Benefit Pension Plans (Continued)

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. 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, 2000, 1999, and 1998, were \$423,628, \$406,366, and \$375,455, respectively. For fiscal year 2000, nothing was contributed and 100 percent was contributed for fiscal years 1998 and 1997. \$423,628 represents the unpaid contribution for fiscal year 2000 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, 2000, four of the board members have elected social security. The Educational Service Center's liability is 6.2 percent of the wages paid to these board members.

Note 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 \$242,073, during the 2000 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,783 million at June 30, 1999. For the year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000 and STRS had 95,796 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.

Note 13 - Postemployment Benefits (Continued)

For this fiscal year, employer contributions to fund health care benefits were 8.5 percent of covered payroll, an increase from 6.3 percent for fiscal year 1999. 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 2000, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$145,153, during the 2000 fiscal year.

The target level for the health care reserves is 125 percent of annual health care expenses. Expenses for health care at June 30, 1999, were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999 SERS had net assets available for payment of health care benefits of \$188.0 million. SERS has approximately 51,000 participating currently receiving health care benefits.

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 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 a capitalized lease for the acquisition of printing equipment. The 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 the lease has 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 the capital lease as of June 30, 2000:

Educational Service Center of Lorain County
Notes to the General Purpose Financial Statements
 June 30, 2000

Note 15 - Capitalized Leases (Continued)

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

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, 2000.

<i>Fiscal Year Ending June 30, 2000</i>	<i>General Long-Term Obligations</i>
	\$4,216
<i>Total Minimum Lease Payments</i>	4,216
Less: Amount Representing Interest	(124)
<i>Present Value of Minimum Lease Payments</i>	\$4,092

Note 16 - Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2000 were as follows:

	<i>Principal Outstanding 6/30/99</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding 6/30/00</i>
<i>Capital Leases:</i>				
Computer Equipment	\$11,221	\$0	\$7,129	\$4,092
Telephone Equipment	1,473	0	1,473	0
<i>Total Capital Leases</i>	12,694	0	8,602	4,092
<i>Intergovernmental Payables</i>	8,904	8,764	8,904	8,764
<i>Compensated Absences</i>	387,258	0	67,666	319,592
<i>Total General Long-Term Obligations</i>	\$408,856	\$8,764	\$85,172	\$332,448

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, 2000.

Note 17 - Contingencies (Continued)

B. Litigation

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

Note 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 this Educational Service Center. For fiscal year ended June 30, 2000, the Educational Service Center received \$2,355,510 of school foundation support for its general fund.

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 Supreme Court. The State appealed the decision made by the Court of Common Pleas to the Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the Ohio Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

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 its financial operations.

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Educational Service Center of Lorain County
Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2000

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass Through Entity Number	CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	CF-AF-99P	84.010	20,720	20,720
	C1-SD-98	84.010	0	2,769
	C1-S1-99	84.010	0	3,211
	C1-SD-99	84.010	0	14,622
	C1-SD-98C	84.010	0	15,348
	C1-AF-00P	84.010	82,000	50,098
	C1-SS-99P	84.010	1,186	1,186
	C1-SD-99C	84.010	52,950	21,832
	C1-S1-99C	84.010	1,212	1,212
	C1-SD-00	84.010	47,970	4,715
Total CFDA			206,038	135,713
Project Life	PF-S1-99	84.158	20,000	20,000
Education for Homeless Children and Youth	HC-S1-00	84.196	38,709	16,177
	HC-S1-99	84.196	4,225	12,036
Total CFDA			42,934	28,213
Eisenhower Professional Development	MS-S1-98	84.281	0	19,131
	MS-S1-99C	84.281	27,880	11,285
	MS-S1-99	84.281	29,207	41,724
Total CFDA			57,087	72,140
Goals 2000	G2-S4-99	84.276	100,000	76,824
	G2-S3-2000	84.276	98,000	28,751
	G2-S9-2000	84.276	35,000	35,000
		84.276	0	54,273
Total CFDA			233,000	194,848
Special Education Cluster:				
Special Education Grants to States	6B-S1-99P	84.027	60,064	140,356
	6B-S1-00P	84.027	590,124	457,433
Total CFDA			650,188	597,789
Special Education Preschool Grants	PG-S3-2000P	84.173	71,000	59,665
	PG-S7-2000	84.173	11,250	4,381
	PG-S7-99	84.173	0	1,960
	PG-S3-99P	84.173	7,400	16,394
	PG-S1-2000P	84.173	46,288	34,908
	PG-S1-99P	84.173	4,721	21,837
Total CFDA			140,659	139,145
Total Special Education Cluster			790,847	736,934
TOTAL U.S. DEPARTMENT OF EDUCATION			1,349,906	1,187,848
<u>NATIONAL ARCHIVES AND RECORDS ADMINISTRATION</u>				
<i>Passed through Ohio Department of Education</i>				
State Library Program	II-44-E-2-99	45.310	290,814	230,694
<u>CORPORATION FOR COMMUNITY AND NATIONAL SERVICE</u>				
<i>Passed through Ohio Department of Education</i>				
Learn and Serve America	SV-S1-99	94.004	0	12,555
	SV-S3-00	94.004	15,000	12,813
Total CFDA			15,000	25,368
TOTAL FEDERAL ASSISTANCE			<u>\$1,655,720</u>	<u>\$1,443,910</u>

Educational Service Center of Lorain County
Notes to the Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2000

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Federal Awards Receipts and Expenditures (Schedule) includes the federal grant activity of the Educational 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 Educational Service Center is the fiscal agent for the Northern Ohio 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
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, (Service Center) as of and for the year ended June 30, 2000, and have issued our report thereon dated December 20, 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 a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated December 20, 2000.

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

Jim Petro
Auditor of State

December 20, 2000



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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
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, (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, 2000. 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, 2000.

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.

Educational Service Center of Lorain County
Report on Compliance with Requirements Applicable to the Major
Program and Internal Control over Compliance in Accordance
with OMB Circular A-133
Page 2

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. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated December 20, 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 Petro
Auditor of State

December 20, 2000

**EDUCATIONAL SERVICE CENTER
OF LORAIN COUNTY**

JUNE 30, 2000

SCHEDULE OF FINDINGS

1. SUMMARY OF AUDITOR'S RESULTS
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(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

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 13, 2001**