



**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2000**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER  
CUYAHOGA COUNTY**

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## REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying general-purpose financial statements of the Cuyahoga County Educational Service Center, Cuyahoga County, Ohio, (the 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 Cuyahoga County Educational Service Center, Cuyahoga County, Ohio, as of June 30, 2000, and the results of its operations and the Statement of Change 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 18, 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 audits.

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 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 18, 2000

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**Cuyahoga County Educational Service Center**

*Combined Balance Sheet*

*All Fund Types and Account Groups*

*June 30, 2000*

	Governmental Fund Types		Fiduciary Fund Types
	General	Special Revenue	Trust and Agency
<b><i>Assets and Other Debits</i></b>			
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$13,441,395	\$672,693	\$2,700,191
Cash and Cash Equivalents In Segregated Accounts	0	0	5,627
Investments In Segregated Accounts	0	0	263,858
Receivables:			
Accounts	10,720	3,000	0
Intergovernmental	5,970,769	0	539,341
Accrued Interest	15,348	0	3,396
Interfund Receivable	463,562	0	0
Prepaid Items	58,547	1,073	0
Fixed Assets	0	0	0
<b>Other Debits</b>			
Amount to be Provided from General Government Resources	0	0	0
<b><i>Total Assets and Other Debits</i></b>	<b>\$19,960,341</b>	<b>\$676,766</b>	<b>\$3,512,413</b>



<u>Account Groups</u>		
<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	<u>Totals (Memorandum Only)</u>
\$0	\$0	\$16,814,279
0	0	5,627
0	0	263,858
0	0	13,720
0	0	6,510,110
0	0	18,744
0	0	463,562
0	0	59,620
280,372	0	280,372
<u>0</u>	<u>722,284</u>	<u>722,284</u>
<u>\$280,372</u>	<u>\$722,284</u>	<u>\$25,152,176</u>

(continued)

**Cuyahoga County Educational Service Center**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups (continued)*  
*June 30, 2000*

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Types</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>
<b><i>Liabilities, Fund Equity and Other Credits</i></b>			
<b>Liabilities</b>			
Accounts Payable	\$415,778	\$85,847	\$0
Accrued Wages	2,526,296	31,945	0
Compensated Absences Payable	10,319	0	0
Interfund Payable	0	251,584	211,978
Intergovernmental Payable	3,894,683	22,081	1,149,480
<i>Total Liabilities</i>	6,847,076	391,457	1,361,458
<b>Fund Equity and Other Credits</b>			
Investment in General Fixed Assets	0	0	0
Fund Balance:			
Held in Trust for Pool Participants	0	0	1,881,470
Held for Individual Investment Account	0	0	269,485
Reserved for Encumbrances	199,800	219,862	0
Unreserved, Undesignated	12,913,465	65,447	0
<i>Total Fund Equity and Other Credits</i>	13,113,265	285,309	2,150,955
<i>Total Liabilities, Fund Equity and Other Credits</i>	\$19,960,341	\$676,766	\$3,512,413

See accompanying notes to the general purpose financial statements

Fiduciary Fund Types	Account Groups			
Trust and Agency	General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)	
\$0	\$0	\$0	\$501,625	
0	0	0	2,558,241	
0	0	637,600	647,919	
211,978	0	0	463,562	
<u>1,149,480</u>	<u>0</u>	<u>84,684</u>	<u>5,150,928</u>	
1,361,458	0	722,284	9,322,275	
0	280,372	0	280,372	
1,881,470	0	0	1,881,470	
269,485	0	0	269,485	
0	0	0	419,662	
<u>0</u>	<u>0</u>	<u>0</u>	<u>12,978,912</u>	
<u>2,150,955</u>	<u>280,372</u>	<u>0</u>	<u>15,829,901</u>	
<u><u>\$3,512,413</u></u>	<u><u>\$280,372</u></u>	<u><u>\$722,284</u></u>	<u><u>\$25,152,176</u></u>	

**Cuyahoga County Educational Service Center**

*Combined Statement of Revenues, Expenditures*

*and Changes in Fund Balances*

*All Governmental Fund Types*

*For the Fiscal Year Ended June 30, 2000*

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
<b>Revenues</b>			
Intergovernmental	\$3,987,884	\$1,404,120	\$5,392,004
Interest	790,684	0	790,684
Contributions and Donations	1,140	7,671	8,811
Charges for Services	34,091,554	181,076	34,272,630
Miscellaneous	189,902	8,014	197,916
<i>Total Revenues</i>	<u>39,061,164</u>	<u>1,600,881</u>	<u>40,662,045</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	312,586	124,187	436,773
Special	15,663,385	134,269	15,797,654
Vocational	262,243	0	262,243
Support Services:			
Pupils	4,144,869	144,437	4,289,306
Instructional Staff	6,847,785	40,106	6,887,891
Board of Education	31,731	0	31,731
Administration	6,310,556	421,896	6,732,452
Fiscal	301,951	33,559	335,510
Business	29,980	0	29,980
Operation and Maintenance of Plant	156,696	0	156,696
Pupil Transportation	125	0	125
Central	16,774	612,709	629,483
Operation of Non-Instructional Services	3,597,526	0	3,597,526
<i>Total Expenditures</i>	<u>37,676,207</u>	<u>1,511,163</u>	<u>39,187,370</u>
<i>Excess of Revenues Over Expenditures</i>	1,384,957	89,718	1,474,675
<i>Fund Balances Beginning of Year</i>	<u>11,728,308</u>	<u>195,591</u>	<u>11,923,899</u>
<i>Fund Balances End of Year</i>	<u>\$13,113,265</u>	<u>\$285,309</u>	<u>\$13,398,574</u>

See accompanying notes to the general purpose financial statements

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

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Intergovernmental	\$2,854,183	\$2,854,183	\$0
Interest	553,082	597,803	44,721
Contributions and Donations	1,140	1,140	0
Charges for Services	30,856,720	34,663,563	3,806,843
Miscellaneous	189,277	189,777	500
<i>Total Revenues</i>	<u>34,454,402</u>	<u>38,306,466</u>	<u>3,852,064</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	289,343	298,832	(9,489)
Special	14,914,673	15,760,714	(846,041)
Vocational	252,584	262,601	(10,017)
Support Services:			
Pupils	3,616,029	3,925,656	(309,627)
Instructional Staff	6,355,922	6,635,272	(279,350)
Board of Education	30,158	34,365	(4,207)
Administration	6,381,623	6,502,110	(120,487)
Fiscal	287,243	300,821	(13,578)
Business	18,013	18,310	(297)
Operation and Maintenance of Plant	169,536	175,910	(6,374)
Pupil Transportation	469	469	0
Central	16,774	16,774	0
Operation of Non-Instructional Services	3,430,944	3,608,774	(177,830)
<i>Total Expenditures</i>	<u>35,763,311</u>	<u>37,540,608</u>	<u>(1,777,297)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,308,909)</u>	<u>765,858</u>	<u>2,074,767</u>
<b>Other Financing Sources (Uses)</b>			
Advances In	96,317	96,317	0
Advances Out	(463,562)	(463,562)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(367,245)</u>	<u>(367,245)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(1,676,154)	398,613	2,074,767
<i>Fund Balances Beginning of Year</i>	8,145,631	8,145,631	0
Prior Year Encumbrances Appropriated	423,260	423,260	0
<i>Fund Balances End of Year</i>	<u>\$6,892,737</u>	<u>\$8,967,504</u>	<u>\$2,074,767</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)
\$1,400,120	\$1,401,120	\$1,000	\$4,254,303	\$4,255,303	\$1,000
0	0	0	553,082	597,803	44,721
7,671	7,671	0	8,811	8,811	0
181,075	181,075	0	31,037,795	34,844,638	3,806,843
8,014	8,014	0	197,291	197,791	500
<u>1,596,880</u>	<u>1,597,880</u>	<u>1,000</u>	<u>36,051,282</u>	<u>39,904,346</u>	<u>3,853,064</u>
130,099	140,453	(10,354)	419,442	439,285	(19,843)
131,959	135,245	(3,286)	15,046,632	15,895,959	(849,327)
0	0	0	252,584	262,601	(10,017)
163,897	164,815	(918)	3,779,926	4,090,471	(310,545)
47,317	55,946	(8,629)	6,403,239	6,691,218	(287,979)
0	0	0	30,158	34,365	(4,207)
358,183	408,587	(50,404)	6,739,806	6,910,697	(170,891)
33,559	33,559	0	320,802	334,380	(13,578)
0	0	0	18,013	18,310	(297)
0	0	0	169,536	175,910	(6,374)
0	0	0	469	469	0
772,296	753,768	18,528	789,070	770,542	18,528
0	0	0	3,430,944	3,608,774	(177,830)
<u>1,637,310</u>	<u>1,692,373</u>	<u>(55,063)</u>	<u>37,400,621</u>	<u>39,232,981</u>	<u>(1,832,360)</u>
<u>(40,430)</u>	<u>(94,493)</u>	<u>(54,063)</u>	<u>(1,349,339)</u>	<u>671,365</u>	<u>2,020,704</u>
0	251,584	251,584	96,317	347,901	251,584
(25,363)	(25,363)	0	(488,925)	(488,925)	0
<u>(25,363)</u>	<u>226,221</u>	<u>251,584</u>	<u>(392,608)</u>	<u>(141,024)</u>	<u>251,584</u>
(65,793)	131,728	197,521	(1,741,947)	530,341	2,272,288
223,403	223,403	0	8,369,034	8,369,034	0
48,262	48,262	0	471,522	471,522	0
<u>\$205,872</u>	<u>\$403,393</u>	<u>\$197,521</u>	<u>\$7,098,609</u>	<u>\$9,370,897</u>	<u>\$2,272,288</u>

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

	<u>Investment Trust</u>
<b>Revenues</b>	
Interest	\$141,436
<b>Expenses</b>	
Operating Expenses	0
<i>Net Increase in Assets Resulting From Operations</i>	141,436
Distributions to Participants	(2,920)
Capital Transactions	364,421
<i>Total Increase in Net Assets</i>	502,937
<i>Net Assets Beginning of Year</i>	1,648,018
<i>Net Assets End of Year</i>	\$2,150,955

See accompanying notes to the general purpose financial statements



**Cuyahoga County Educational Service Center**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2000*

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**Note 1 - Description of the Educational Service Center**

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

The Educational Service Center operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State or federal agencies to three local, twenty-six city, and one exempted village school districts. The Board controls the Educational Service Center's staff who provide services to 123,606 students and other community members in Cuyahoga County.

***Reporting Entity***

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

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

The Educational Service Center is associated with six jointly governed organizations and one insurance purchasing pool. These organizations are the Lakeshore Northeast Ohio Computer Association, Cuyahoga Media Center, Alliance for School Funding, Cuyahoga County Early Intervention Collaborative, Positive Education Program, Cuyahoga County Special Education Regional Resource Center, and the Ohio School Boards Association Workers’ Compensation Group Rating Program. These organizations are presented in Notes 16 and 17 to the general purpose financial statements.

**Note 2 - Summary of Significant Accounting Policies**

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

## Cuyahoga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2000

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### **A. Basis of Presentation-Fund Accounting**

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

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

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

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

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

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

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

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

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

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

**Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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***B. Measurement Focus and Basis of Accounting***

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

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

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

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

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

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

***C. Budgetary Data***

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

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

## Cuyahoga County Educational Service Center

### Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2000

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

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

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

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

#### **D. Cash, Cash Equivalents and Investments**

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

During fiscal year 2000, investments were limited to interest in Bankers Acceptances, Commercial Paper, Federal National Mortgage Association Notes, Federal Home Loan Mortgage Backed Securities, Victory Federal Money Market, and Certificates of Deposit.

## **Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2000 amounted to \$790,684, which includes \$45,793 assigned for other Educational Service Center funds.

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

For purposes of presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

### ***E. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2000, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

### ***F. Inventory***

Inventories are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Since the inventory balance at June 30, 2000, was not significant, an amount was not reported on the combined balance sheet.

### ***G. Fixed Assets and Depreciation***

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

**Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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

***H. Intergovernmental Revenues***

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

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

**Entitlements**

*General Fund*

State Foundation Program

**Non-Reimbursable Grants**

*Special Revenue Funds*

Ohio Media Regional Grant

Educational Management Information System

Head Start Disabilities

Special Education Regional Resource Center

Professional Development Work Cluster

Pilot Project American Sign Language

Ohio Early Start

Ohio School Conflict Management

Peer Assistance and Review

Title VI-B

Title I

Preschool Disabilities

Ohio Early Intervention

Goals 2000

Learn and Serve

Urban Service

Library Service Technology Act

Grants and entitlements amounted to thirteen percent of the Educational Service Center's governmental funds revenue during the 2000 fiscal year.

## **Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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### ***I. Interfund Assets and Liabilities***

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables." During fiscal year 2000, there were advances in and advances out in the agency funds. Since agency funds do not present budgetary statements, advances in and advances out do not balance on a budgetary basis.

### ***J. Compensated Absences***

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits in the Educational Service Center's termination policy.

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

### ***K. Accrued Liabilities and Long-Term Obligations***

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

### ***L. Interfund Transactions***

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

**Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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***M. Fund Balance Reserves***

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

***N. Estimates***

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

***O. Total Columns on General Purpose Financial Statements***

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. 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 (Non-GAAP Basis) and Actual, All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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



**Cuyahoga County Educational Service Center**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2000*

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

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

	General	Special Revenue
GAAP Basis	\$1,384,957	\$89,718
Revenue Accruals	(490,629)	(3,001)
Fair Value Adjustment for Investment	(264,069)	0
Advance In	96,317	251,584
Expenditure Accruals	370,424	66,372
Advance Out	(463,562)	(25,363)
Encumbrances	(234,825)	(247,582)
Budget Basis	\$398,613	\$131,728

**Note 4 - Accountability**

At June 30, 2000, the Title I special revenue fund had a deficit of \$89,583, which is due to adjustments for accrued liabilities. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**Note 5 - Deposits and Investments**

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

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

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

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

## Cuyahoga County Educational Service Center

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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

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

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

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

**Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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

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

**Deposits** At fiscal year end, the carrying amount of the Educational Service Center’s deposits was \$1,172,279 and the bank balance was \$2,457,225. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$2,257,225 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

	Category 2	Fair Value
Bankers Acceptance	\$2,795,607	\$2,795,607
Commercial Paper	263,858	263,858
Federal Home Loan Bank Notes	6,953,363	6,953,363
Federal National Mortgage Association Notes	2,486,666	2,486,666
Victory Federal Money Market Mutual Fund		3,411,891
Totals	<u>\$12,499,494</u>	<u>\$15,911,385</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, “Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.”

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

**Cuyahoga County Educational Service Center**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2000*

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$16,819,906	\$263,858
Cash on Hand	(100)	0
Investments which are part of the cash management pool:		
Bankers Acceptance	(2,795,607)	2,795,607
Federal Home Loan Bank Notes	(6,953,363)	6,953,363
Federal National Mortgage Association Notes	(2,486,666)	2,486,666
Victory Federal Money Market Mutual Fund	(3,411,891)	3,411,891
GASB Statement No. 3	<u>\$1,172,279</u>	<u>\$15,911,385</u>

**Note 6 - Receivables**

Receivables at June 30, 2000, consisted of accounts and intergovernmental monies. All receivables are considered collectible in full because of the stable condition of State programs and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amount
<b>General Fund</b>	
Special Education Excess Cost	\$5,970,038
National School Lunch	731
Total General Fund	<u>5,970,769</u>
<b>Agency Funds</b>	
Ohio Schools	111,049
SERRC	13,985
Total Agency Funds	<u>125,034</u>
<b>Investment Trust Funds</b>	
LNOCA	413,507
Media Center	800
Total External Trust Funds	<u>414,307</u>
Total Agency and Trust Funds	<u>539,341</u>
<i>Total All Funds</i>	<u><u>\$6,510,110</u></u>

**Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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**Note 7 - Investment Pool**

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

<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$16,814,279
Interest Receivable	18,744
	<hr/>
<i>Total Assets</i>	<u><u>\$16,833,023</u></u>
 <b>Net Assets Held in Trust for Pool Participants</b>	
Internal Portion	\$14,951,553
External Portion	1,881,470
	<hr/>
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u><u>\$16,833,023</u></u>

Statement of Changes in Net Assets

For the Fiscal Year Ended June 30, 2000

<b>Revenues</b>	
Interest	\$932,120
 <b>Expenses</b>	
Operating Expenses	0
	<hr/>
<i>Net Increase in Assets Resulting from Operations</i>	932,120
Distributions to Participants	(281,224)
Capital Transactions	1,516,042
	<hr/>
<i>Total Increase in Net Assets</i>	2,166,938
<i>Net Assets Beginning of Year</i>	<u>14,666,085</u>
<i>Net Assets End of Year</i>	<u><u>\$16,833,023</u></u>

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

**Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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

**Deposits** At fiscal year end, the carrying amount of the investment pool's deposits was \$1,166,652 and the bank balance was \$2,457,225. Of the bank balance \$200,000 was covered by federal depository insurance and \$2,257,225 was uninsured and uncollateralized. Although the State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the investment pool to a successful claim by the FDIC.

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

	Interest Rates	Category 2	Fair Value
Bankers Acceptance	5.68% - 6.391%	\$2,795,607	\$2,795,607
Federal Home Loan Bank Notes	5.706 - 5.837	6,953,363	6,953,363
Federal National Mortgage Association Notes	5.439 - 5.673	2,486,666	2,486,666
Victory Federal Money Market Mutual Fund	6.33	0	3,411,891
Totals		<u>\$12,235,636</u>	<u>\$15,647,527</u>

The Bankers Acceptance securities have maturities ranging from July 10, 2000 to March 23, 2001. The Federal Home Loan Mortgage securities have maturities ranging from July 6, 2000 to September 14, 2000. The Federal National Mortgage Association securities have maturities ranging from July 27, 2000 to August 10, 2000.

**Note 8 - Fixed Assets**

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

	Balance June 30, 1999	Additions	Deletions	Balance June 30, 2000
Furniture and Fixtures	<u>\$263,717</u>	<u>\$50,137</u>	<u>\$33,482</u>	<u>\$280,372</u>

**Cuyahoga County Educational Service Center**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2000*

**Note 9 - State Funding**

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

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

**Note 10 - Interfund Transactions**

Interfund balances at June 30, 2000, consist of the following individual fund receivables and payables:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General	\$463,562	\$0
<b>Special Revenue Funds</b>		
Title I	0	80,652
School Net	0	170,374
School Improvement Facilitator Project	0	558
<i>Total Special Revenue Funds</i>	<u>0</u>	<u>251,584</u>
<b>Agency Fund</b>		
Ohio Schools Council	0	37,358
CEILCG	0	171,990
<i>Total Agency Funds</i>	<u>0</u>	<u>209,348</u>
Media Center Investment Trust Fund	0	2,630
<i>Total Agency and Trust Funds</i>	<u>0</u>	<u>211,978</u>
<i>Total All Funds</i>	<u><u>\$463,562</u></u>	<u><u>\$463,562</u></u>

**Note 11 - Risk Management**

**A. Property and Liability**

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

**Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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

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

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

***B. Workers' Compensation***

For fiscal year 2000, the Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts and service center is calculated as one experience and a common premium rate is applied to all school districts and service centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts and service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**Note 12 - Defined Benefit Pension Plan**

***A. 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. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone 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.

For the fiscal year ended June 30, 2000, plan members are required to contribute 9.3 percent of their annual covered salaries. The 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 Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2000, 1999, and 1998 were \$1,047,848, \$1,025,035, and \$1,697,573 respectively. Nothing has been contributed for fiscal year 2000 and 100 percent for the fiscal years 1999 and 1998. \$1,047,848 representing the unpaid contribution for fiscal year 2000 and is recorded as a liability within the respective funds.



## **Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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### ***B. School Employees Retirement System***

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Cuyahoga County Educational Service Center is required to contribute an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2000, 5.5 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by SERS' Retirement Board. The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2000, 1999, and 1998 were \$709,191, \$861,460, and \$953,618, respectively; nothing has been contributed for fiscal year 2000 and 100 percent for the fiscal years 1999 and 1998. \$709,191 representing the unpaid contribution for fiscal year 2000, is recorded as a liability within the respective funds and the general long-term obligations account group.

### **Note 13 - Postemployment Benefits**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2000, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the Service Center, this amount equaled \$1,397,131 for fiscal year 2000.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1999, (the latest information available) the balance in the Fund was \$2,783 million. 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 fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

**Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2000, employer contributions to fund health care benefits were 8.5 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2000, the minimum pay was established at \$12,400. For the Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2000 fiscal year equaled \$1,180,706.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1999 (the latest information available), 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 participants 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. Accumulated unused vacation time is not paid upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 180 days for all employees.

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

***B. Life Insurance***

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

**Cuyahoga County Educational Service Center**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2000*

**Note 15 - Long-Term Obligations**

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

	Outstanding 6/30/99	Additions	Deductions	Outstanding 6/30/00
Pension Obligation	\$83,749	\$84,684	\$83,749	\$84,684
Compensated Absences	648,842	0	11,242	637,600
<i>Total General Long-Term Obligations</i>	<u>\$732,591</u>	<u>\$84,684</u>	<u>\$94,991</u>	<u>\$722,284</u>

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

**Note 16 - Jointly Governed Organizations**

***A. Lakeshore Northeast Ohio Computer Association (LNOCA)***

LNOCA is a jointly governed organization among sixteen school districts and the Cuyahoga County Educational Service Center in Cuyahoga County. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports LNOCA based on a per pupil charge. The Service Center contributed \$8,000 to LNOCA during fiscal year 2000 which was .59 percent of total revenues received by LNOCA.

The Governing Board consists of superintendents of each participating school district and the educational service center. The degree of control exercised by any participant is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of LNOCA's financial statements, write to the Educational Service Center at 5700 West Canal Road, Valley View, Ohio 44125.

***B. Cuyahoga Media Center (Media Center)***

The media center is a jointly governed organization among seventeen school districts and the Cuyahoga County Educational Service Center. The jointly governed organization was formed for the purpose of providing media services to the participants. Each of the districts supports the media center based on a per pupil charge. The media center is a jointly governed organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The Service Center did not make any contributions to the media center in fiscal year 2000.

The Governing Board consists of a representative of each participating school district. The degree of control exercised by any participant is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of the media center's financial statements, write to the Educational Service Center at 5700 West Canal Road, Valley View, Ohio 44125.

## **Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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### ***C. Alliance for School Funding (Alliance)***

The Alliance is a jointly governed organization among fifty school districts including the Cuyahoga County Educational Service Center in Cuyahoga County. The jointly governed organization was formed to protect the concept of the existing system of school funding. Each participant pays an annual membership fee. The Service Center contributed \$2,700 to the Alliance during fiscal year 2000 which was 1.44 percent of total revenues received by the Alliance.

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

### ***D. Cuyahoga County Early Intervention Collaborative (CCEIC)***

The CCEIC selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed to provide interagency planning, policy development and implementation of programs for infants and toddlers with developmental disabilities or risk factors, and their families in Cuyahoga County. The Service Center did not make any contributions to the CCEIC in fiscal year 2000.

CCEIC's eight member governing board is made up of a representative from all the participating school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. To obtain a copy of the CCEIC's financial statements, write to the Educational Service Center at 5700 West Canal Road, Valley View, Ohio 44125.

### ***E. Positive Education Program (PEP)***

The PEP is a non-profit organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center has not contributed to PEP in fiscal year 2000.

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

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

The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center has not contributed to the SERRC in fiscal year 2000.

**Cuyahoga County Educational Service Center**  
*Notes to the General Purpose Financial Statements*  
*For the Fiscal Year Ended June 30, 2000*

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

**Note 17 - Insurance Purchasing Pool**

The 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 and Service Centers pay an enrollment fee to the GRP to cover the costs of administering the program.

**Note 18 - Contingencies**

***A. Grants***

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2000.

***B. Litigation***

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

**Note 19 - State School Funding Decision**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the Ohio General Assembly to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 2000, the School District received \$2,744,117 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County 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. 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

**Cuyahoga County Educational Service Center**

*Notes to the General Purpose Financial Statements*

*For the Fiscal Year Ended June 30, 2000*

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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 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.

**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER  
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2000**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
National School Lunch Program	45195 04-PU-99	10.555	\$41,069	\$41,069
<b>Total U.S. Department of Agriculture - Nutrition Cluster</b>			<b>41,069</b>	<b>41,069</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Title 1, Part A, IASA	C1-ST-99P	84.010	87,627	82,360
	C1-ST-00P	84.010	134,173	170,985
	C1-S1-00	84.010	11,807	28,035
Total Title 1			233,607	281,381
Special Education Cluster: Special Education Grants to States	6B-SF-99P	84.027	87,102	113,406
	6B-SF-00P	84.027	45,291	2,537
	5B-SI-99	84.027	32,906	310,231
	6B-SI-00	84.027	1,537,303	1,340,959
Total Special Education			1,702,602	1,767,132
Special Education - Preschool Grant	PG-S1-99P	84.173	0	12,168
	PG-S1-00P	84.173	12,713	5,332
	PG-S7-99	84.173	0	3,033
	PG-S7-00	84.173	11,250	7,260
Total Special Education - Preschool Grant			23,963	27,793
Total Special Education Cluster			1,726,565	1,794,925
Project Life	PF-S1-99	84.158	20,000	19,442
Goals 2000	G2-S1-99	84.276	0	120,858
	G2-S1-00	84.276	228,000	99,852
	G2-S9-00	84.276	15,000	0
	G2-S1-99	84.276	50,000	47,537
Total Goals 2000			293,000	268,246
<i>Passed through the Ohio Department of Health</i>				
Special Education Grants for Infants and Families With Disabilities	18-5-01-F-AN-392	84.181	102,222	102,524
	18-5-01-F-AN-392	84.181	364,637	337,194
Total Special (Disabilities)			466,859	439,718
<b>Total U.S. Department of Education</b>			<b>2,740,031</b>	<b>2,803,712</b>
<b><u>CORPORATION FOR COMMUNITY AND NATIONAL SERVICE</u></b>				
<i>Passed through the Ohio Department of Education</i>				
Learn and Serve America	SV-SP-99	94.004	0	1,300
<b>Total Corporation for Community and National Service</b>			<b>0</b>	<b>1,300</b>
<b><u>OFFICE OF LIBRARY SERVICES, INSTITUTE OF MUSEUM AND LIBRARY SERVICES, NATIONAL FOUNDATION ON THE ARTS AND HUMANITIES</u></b>				
<i>Passed through the State Library of Ohio</i>				
Library Services and Technology Act		45.310	412,120	403,188
<b>Total Federal Assistance</b>			<b>\$3,193,220</b>	<b>\$3,249,269</b>

*See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures*

**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER  
CUYAHOGA 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 Service Center and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

**NOTE B - FISCAL AGENT**

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

CFDA - Catalog of Federal Domestic Assistance.





STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

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

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

We have audited the financial statements of the Cuyahoga County Educational Service Center, Cuyahoga County, Ohio, (the Service Center) as of and for the year ended June 30, 2000, and have issued our report thereon dated December 18, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated December 18, 2000.

We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated December 18, 2000.

This report is intended for the information and use of management, and the Governing Board and is not intended to be and should not be used by anyone other than these specified parties.

**Jim Petro**  
Auditor of State

December 18, 2000



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

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

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

**Compliance**

We have audited the compliance of the Cuyahoga County Educational Service Center, Cuyahoga County, Ohio, (the Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about 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 each of its major federal programs 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 a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated December 18, 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 18, 2000

**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER  
CUYAHOGA COUNTY  
JUNE 30, 2000**

**1. SUMMARY OF AUDITOR'S RESULTS**

A-133 §.505

(d)(1)(i)	<b>Type of Financial Statement Opinion</b>	Unqualified
(d)(1)(ii)	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
(d)(1)(ii)	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
(d)(1)(iii)	<b>Was there any reported non-compliance at the financial statement level (GAGAS)?</b>	No
(d)(1)(iv)	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
(d)(1)(iv)	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
(d)(1)(v)	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
(d)(1)(vi)	<b>Are there any reportable findings under Sec. .510?</b>	No
(d)(1)(vii)	<b>Major Programs (list)</b>	Special Education Cluster: Title VI-B - CFDA 84.027 Title VI-B - CFDA 84.173 and Library Services and Technology Act - CFDA 45.310
(d)(1)(viii)	<b>Dollar Threshold: Type A/B Programs</b>	\$300,000/all others
(d)(1)(ix)	<b>Low Risk Auditee?</b>	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.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 16, 2001**