



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Lake County Educational Service Center
Lake County
P.O. Box 490
105 Main Street
Painesville, Ohio 44077

To the Governing Board:

We have audited the accompanying general-purpose financial statements of the Lake County Educational Service Center, Lake County, Ohio, (the Center), as of and for the years ended June 30, 2000 and June 30, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

We conducted our audits 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 audits provide 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 Lake County Educational Service Center, Lake County, as of June 30, 2000 and June 30, 1999, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2000 on our consideration of the 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.

Jim Petro
Auditor of State

December 27, 2000

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LAKE COUNTY EDUCATIONAL SERVICE CENTER - LAKE COUNTY
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2000

ASSETS AND OTHER DEBITS:

	Governmental Fund Types			Account Group			Totals (Memorandum Only)
	General	Special Revenue	General Fixed Assets	General Long-term Debt			
Assets:							
Equity in pooled cash and investments	\$ 689,071	\$ 407,373	\$ -	\$ -			\$ 1,096,444
Cash with fiscal agent	127,390	-	-	-			127,390
Receivables:							
Taxes	-	6,530,730	-	-			6,530,730
Accounts	3,386	5,480	-	-			8,866
Intergovernmental	480,512	34,941	-	-			515,453
Fixed assets	-	-	198,596	-			198,596
Other Debits:							
Amount to be provided for retirement of general long-term debt	-	-	-	77,287			77,287
Total assets and other debits	<u>\$ 1,300,359</u>	<u>\$ 6,978,524</u>	<u>\$ 198,596</u>	<u>\$ 77,287</u>			<u>\$ 8,554,766</u>

The accompanying notes are an integral part of the financial statements.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER - LAKE COUNTY
 COMBINED BALANCE SHEET (CONTINUED)
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2000**

	Governmental Fund Types			Account Group			Totals (Memorandum Only)
	General	Special Revenue	General Fixed Assets	General Long-term Debt	Totals		
					General	Long-term Debt	
LIABILITIES, FUND EQUITY AND OTHER CREDITS:							
Liabilities:							
Accounts payable	\$ 26,320	\$ 19,850	\$ -	\$ -	\$ -	\$ 46,170	
Intergovernmental payable	-	6,565,671	-	-	-	6,565,671	
Accrued wages and benefits	254,918	29,044	-	11,935	-	295,897	
Claims payable	39,578	-	-	-	-	39,578	
Compensated absences payable	-	-	-	50,092	-	50,092	
Capital lease obligations	-	-	-	15,260	-	15,260	
Total liabilities	<u>320,816</u>	<u>6,614,565</u>	<u>-</u>	<u>77,287</u>	<u>-</u>	<u>7,012,668</u>	
Fund Equity and Other Credits:							
Investment in general fixed assets	-	-	198,596	-	-	198,596	
Fund balances:							
Reserved for encumbrances	16,801	54,364	-	-	-	71,165	
Unreserved, undesignated	962,742	309,595	-	-	-	1,272,337	
Total fund equity and other credits	<u>979,543</u>	<u>363,959</u>	<u>198,596</u>	<u>-</u>	<u>-</u>	<u>1,542,098</u>	
Total liabilities, fund equity and other credits	<u>\$ 1,300,359</u>	<u>\$ 6,978,524</u>	<u>\$ 198,596</u>	<u>\$ 77,287</u>	<u>\$ -</u>	<u>\$ 8,554,766</u>	

The accompanying notes are an integral part of the financial statements.

LAKE COUNTY EDUCATIONAL SERVICE CENTER - LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
REVENUES:			
Revenue from local sources:			
Taxes	\$ -	\$ 6,144,342	\$ 6,144,342
Tuition	492,061	7,119	499,180
Earnings on investments	38,778	3,849	42,627
Revenue from state sources:			
Unrestricted grants-in-aid	2,525,717	453,264	2,978,981
Restricted grants-in-aid	15,000	575,006	590,006
Revenue from federal sources:			
Restricted grants-in-aid	-	200,000	200,000
Miscellaneous	723,579	31,612	755,191
Total revenue	<u>3,795,135</u>	<u>7,415,192</u>	<u>11,210,327</u>
EXPENDITURES:			
Instruction:			
Regular	(7,828)	332,375	324,547
Special	544,840	69,323	614,163
Vocational education	171,611	-	171,611
Other	-	279	279
Supporting services:			
Pupils	689,432	2,571	692,003
Instructional staff	977,226	80,738	1,057,964
Board of Education	40,658	6,753,038	6,793,696
Administration	679,376	26,831	706,207
Fiscal services	128,036	6,000	134,036
Operation and maintenance - plant	106,577	5,733	112,310
Pupil transportation	8,638	19,779	28,417
Central	188,195	824	189,019
Total expenditures	<u>3,526,761</u>	<u>7,297,491</u>	<u>10,824,252</u>
Excess of revenues over expenditures	<u>268,374</u>	<u>117,701</u>	<u>386,075</u>
OTHER FINANCING SOURCES:			
Refund of prior year expenditures	6,937	-	6,937
Total other financing sources	<u>6,937</u>	<u>-</u>	<u>6,937</u>
Excess of revenues and other sources over expenditures and other uses	275,311	117,701	393,012
BEGINNING FUND BALANCE	<u>704,232</u>	<u>246,258</u>	<u>950,490</u>
ENDING FUND BALANCE	<u>\$ 979,543</u>	<u>\$ 363,959</u>	<u>\$ 1,343,502</u>

The accompanying notes are an integral part of the financial statements.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER - LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000**

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance (Unfavorable)	Budget	Actual	Variance (Unfavorable)	Budget	Actual	Variance (Unfavorable)
REVENUES									
Tuition	\$ 341,269	\$ 299,896	\$ (41,373)	\$ 7,150	\$ 7,144	\$ (6)	\$ 348,419	\$ 307,040	\$ (41,379)
Earnings on investments	39,500	38,778	(722)	3,855	3,849	(6)	43,355	42,627	(728)
Miscellaneous	642,652	641,947	(705)	33,037	33,036	(1)	675,689	674,983	(706)
Extracurricular activities	750	750	-	140	136	(4)	890	886	(4)
Revenue from intermediate sources - restricted	-	-	-	68,412	68,412	-	68,412	68,412	-
Revenue from state sources - unrestricted	2,525,003	2,525,717	714	-	-	-	2,525,003	2,525,717	714
Revenue from state sources - restricted	-	-	-	501,114	501,114	-	501,114	501,114	-
Revenue from federal sources - restricted	-	-	-	200,000	200,000	-	200,000	200,000	-
Total revenues	3,549,174	3,507,088	(42,086)	813,708	813,691	(17)	4,362,882	4,320,779	(42,103)
EXPENDITURES									
Current									
Instruction:									
Regular	-	(7,828)	7,828	389,484	346,305	43,179	389,484	338,477	51,007
Special	563,687	561,921	1,766	37	-	37	563,724	561,921	1,803
Vocational	178,975	175,374	3,601	91,212	69,480	21,732	270,187	244,854	25,333
Other	34,439	-	34,439	-	-	-	34,439	-	34,439
Support services:									
Pupil	690,745	688,757	1,988	7,642	2,591	5,051	698,387	691,348	7,039
Instructional staff	996,336	989,698	6,638	122,346	85,398	36,948	1,118,682	1,075,096	43,586
Board of Education	41,989	41,755	234	158,337	158,337	-	200,326	200,092	234
Administration	690,721	687,751	2,970	77,481	58,725	18,756	768,202	746,476	21,726
Fiscal	127,367	127,277	90	6,000	6,000	-	133,367	133,277	90
Operation and maintenance of plant	93,182	92,986	196	5,733	5,733	-	98,915	98,719	196
Pupil transportation	11,935	11,876	59	22,017	17,717	4,300	33,952	29,593	4,359
Central	185,332	184,874	458	1,087	824	263	186,419	185,698	721
Non-instructional services:									
Food service	-	-	-	7,200	-	7,200	7,200	-	7,200
Total expenditures	3,614,708	3,554,441	60,267	888,576	751,110	137,466	4,503,284	4,305,551	197,733
Excess of revenue over expenditures	(65,534)	(47,353)	18,181	(74,868)	62,581	137,449	(140,402)	15,228	155,630
OTHER FINANCING SOURCES (USES)									
Advances in	2,626	2,626	-	-	-	-	2,626	2,626	-
Advances out	-	-	-	-	-	-	-	-	-
Refund of prior year expenditures	6,950	6,937	(13)	-	-	-	6,950	6,937	(13)
Total other financing uses	9,576	9,563	(13)	-	-	-	9,576	9,563	(13)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(55,958)	(37,790)	18,168	(74,868)	62,581	137,449	(130,826)	24,791	155,617
FUND BALANCES - BEGINNING OF YEAR	665,010	665,010	-	251,953	251,953	-	916,963	916,963	-
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	19,034	19,034	-	21,011	21,011	-	40,045	40,045	-
FUND BALANCES - END OF YEAR	\$ 628,086	\$ 646,254	\$ 18,168	\$ 198,996	\$ 335,845	\$ 137,449	\$ 826,182	\$ 981,799	\$ 155,617

The accompanying notes are an integral part of the financial statements.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS**

DESCRIPTION OF THE DISTRICT

The Lake County Educational Service Center (the "Center"), formerly the Lake County Board of Education, is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a local county school district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the Center.

The Center is located in Lake County. The Center serves five local school districts: Painesville Township Local School District, Painesville City Local School District, Kirtland Local School District, Madison Local School District and Perry Local School District.

The Center employed 59 certificated employees and 21 non-certificated employees.

DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL REPORTING ENTITY

The Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The financial statements include all the organizations, activities, functions and component units for which the Center (Primary Government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the Center's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center.

On this basis, the financial statements of the Lake County School Financing District (the "Financing District") have been included in the accompanying general-purpose financial statements as a blended component unit. The Financing District is legally separate, but governed by the same board, therefore, the Center has the ability to impose its will over the Financing District. The Center acts as the fiscal agent for the Lake County School Financing District.

The Center is associated with three organizations, one jointly governed organization and two insurance purchasing pools. These organizations are the Lake Geauga Computer Association, the Lake County Schools Council of Governments' Health Care Benefits Program and the Ohio School Boards Association Workers' Compensation Group Rating Plan. Information about these organizations is discussed later in the notes to the general-purpose financial statements.

BASIS OF PRESENTATION

The accounting policies of the Center conform to generally accepted accounting principles (GAAP) as applicable to governments.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial transactions of the Center are recorded in individual funds and account groups. The various funds and account groups are reported by type in the general-purpose financial statements. Amounts in the "totals - memorandum only" columns in the general-purpose financial statements represent a summation of the combined financial statement line items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different basis of accounting, interfund transactions that have not been eliminated, and the caption "amounts to be provided", which does not represent an asset. Consequently, amounts shown in the "totals - memorandum only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the Center.

The Center uses the following fund categories, fund types and account groups:

Governmental Fund Types

Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during a period.

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

Special Revenue Funds - Special revenue funds are used to account for revenue from specific sources (other than expendable trust or major capital projects) which require separate accounting because of legal restrictions requiring that expenditures be for specified purposes.

Account Groups

Account groups are used to establish accounting control and accountability for the Center's general fixed assets and general long-term debt.

General Fixed Assets - General fixed assets are used to account for capital assets used in general government operations with a useful life of greater than one year.

General Long-Term Debt - General long-term debt is used to account for all long-term obligations of the Center, except for those accounted for in Proprietary Funds. These obligations are secured by the credit of the Center as a whole and are payable from general government resources or assessments against property owners.

BASIS OF ACCOUNTING

Governmental Fund Types are accounted for on the modified accrual basis of accounting. Governmental revenues are recognized when they become measurable and available to finance expenditures of the current period. Revenue items, which are susceptible to accrual and therefore are recorded as receivables, include property taxes, tuitions/excess cost tuitions and reimbursable-type grants. Expenditures are recognized when the related fund liability is incurred, with the exception of accumulated unpaid employee compensation, which is not payable from current expendable financial resources.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETARY BASIS OF ACCOUNTING

Based on the requirements of Section 3317.11, Ohio Revised Code, the budgetary process described below applies specifically to the Lake County Educational Service Center and is not applicable to the Lake County School Financing District.

The Center is required by State statute to adopt an annual appropriation budget for all fund types except agency funds. The specific timetable is as follows:

In June, the Treasurer submits to the Board of Education a temporary proposed operating budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing for all funds. In October, the Board adopts a permanent budget. Annually, on or before a date designated by the State Board of Education, the board-adopted budget is filed with the Ohio Department of Education using special Form SF5. Prior to June 30, the Board must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Estimated Resources. The budget may be further amended during the year if projected increases or decreases in revenue are identified by the Board Treasurer.

By the June Board meeting, the temporary annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures for the general fund and the fund level of expenditures for other funds, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as approved by the Board and the total of expenditures and encumbrances may not exceed the appropriation totals. Any revisions that alter the total of the general fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education. For other funds, any revisions that alter the total of the fund appropriations must be approved by the Board of Education.

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized appropriation.

Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during fiscal 1999-2000.

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Center's budgetary process accounts for certain transactions on a basis, which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.
2. Expenditures are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is susceptible to accrual for GAAP purposes.

An analysis of the difference in fund balance for all governmental fund types at June 30, 2000 as determined under the GAAP basis and budget basis follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
GAAP basis - fund balance	\$ 979,543	\$ 363,959
Accrued revenue/prepaid expenses at June 30, 2000	(611,288)	(6,571,151)
Accrued expenditures/deferred revenue at June 30, 2000	320,816	6,614,565
Encumbrances outstanding at June 30, 2000 (budget basis)	<u>(42,817)</u>	<u>(71,828)</u>
Budget-basis fund balance	<u>\$ 646,254</u>	<u>\$ 335,545</u>

Based on the requirements of Chapter 5705, Revised Code, the budgetary process described below applies specifically to the Lake County School Financing District and is not applicable to the Lake County Educational Service Center.

BUDGET

A budget of estimated cash receipts and disbursements is submitted to the county auditor, as secretary of the county budget commission, by January 20 of each year, for the period July 1 to June 30 fiscal year.

ESTIMATED RESOURCES

The county budget commission certifies its actions to the Financing District by March 1. As part of this certification, the Financing District receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the Financing District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying general-purpose financial statements do not include July 1, 1999 unencumbered fund balances. However, those fund balances are available for appropriations.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

APPROPRIATIONS

The Financing District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

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

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control. Encumbrances are reported as a reservation of fund balance in all Governmental Fund Types.

CASH AND CASH EQUIVALENTS

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

During fiscal year 2000, investments were limited to STAR Ohio (the State Treasury Asset Reserve), Treasury Notes, discount commercial paper, mutual funds and repurchase agreements. All investments of the Center had a maturity of two years or less. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts such as repurchase agreements are reported at cost.

The Center has invested funds in the State Treasury Assets Reserve (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 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.

Following Ohio statutes, the Center has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2000 amounted to \$ 38,778.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FIXED ASSETS AND DEPRECIATION

General Fixed Assets Account Group - General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The Center follows the policy of not capitalizing assets with a cost of less than \$ 500 or a useful life of less than one year. No depreciation is recognized for assets in the General Fixed Assets Account Group.

INTERFUND TRANSACTIONS

During the course of normal operations, the Center has numerous transactions between funds, including expenditures and transfers of resources to provide services and improve assets. Operating subsidies are recorded as operating transfers. The classification of amounts recorded as subsidies, advances or equity contributions is based on the intent of the Center at the time of the transaction.

FUND BALANCE RESERVES

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances. The unreserved portions of fund equity reflected for the Governmental Fund Types are available for use within the specific purposes of those funds.

ESTIMATES

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

EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the 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 Center's 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 Center's 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 or deposit accounts including passbook accounts.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, as security for repayment by surety company, bonds deposited with the Treasurer 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 other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Bank, Federal Farm Credit Bank, Federal Home 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 2 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 (STAR Ohio); and
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 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 Center, and must be purchased with the expectation that it will be held until maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be paid 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.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

At June 30, 2000, the Center's general fund had a balance of \$ 127,390 with Lake County Council of Governments Health Care Benefits Program, a claims servicing pool (See Note). The money is held by the claims servicer in a pooled account which is representative of numerous entities and, therefore, cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Mentor Exempted Village School District. To obtain financial information, write to Mr. James Metz, Mentor Exempted Village School District, 6451 Center Street, Mentor, Ohio 44060.

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement No. 3.

Deposits - At fiscal year end, the carrying amount of the Center's deposits was \$ 166,545 and the bank balance was \$ 102,139. \$ 100,000 of the bank balance was covered by federal depository insurance. \$ 2,139 was uninsured but collateralized with securities held by an agent but not in the Center's name. Although any securities serving as collateral were held by the pledging financial institutions' trust department or agent not in the Center's name and all state statutory requirements for the deposit of money have been followed. Noncompliance with federal requirements would potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments - Investments made by the Center as of June 30, 2000 are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1 Insured or registered, with investments held by the Center or its agents in the Center's name.
- Category 2 Uninsured and unregistered, with investments held by the counterparty's trust department or agent in the Center's name.
- Category 3 Uninsured and unregistered, with investments held by the counterparty, or by its trust department or agent but not in the Center's name.

	<u>Carrying Value</u>	<u>Fair Value</u>
Government money fund	\$ 227	\$ 227
American Express discount commercial paper (Category 2)	196,714	196,714
Repurchase agreements (Category 3)	228,345	228,345
STAR Ohio	<u>504,613</u>	<u>504,613</u>
	<u>\$ 929,899</u>	<u>\$ 929,899</u>

STAR Ohio and the Government money fund are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

LAKE COUNTY SCHOOL FINANCING DISTRICT

The Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

The Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts each of such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being the Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2000. The receivable is offset by a liability to Member Districts.

FIXED ASSETS

A summary of changes in the General Fixed Assets Account Group is as follows:

	Balance July 1, <u>1999</u>	<u>Additions</u>	<u>Disposals</u>	Balance June 30, <u>2000</u>
Furniture and equipment	\$ 140,876	\$ 22,348	\$ 2,086	\$ 161,138
Vehicles	19,049	--	--	19,049
Equipment under capital lease	<u>18,409</u>	<u>--</u>	<u>--</u>	<u>18,409</u>
Total	<u>\$ 178,334</u>	<u>\$ 22,348</u>	<u>\$ 2,086</u>	<u>\$ 198,596</u>

CAPITALIZED LEASE - EQUIPMENT

The Center has entered into a capitalized lease for the acquisition of a copier. The terms of the agreement provide an option to purchase the 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 risk of ownership to the lessee at the conclusion of the lease term.

The following is a schedule of future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2000:

<u>Year Ending June 30</u>	<u>Amount</u>
2001	\$ 4,374
2002	4,374
2003	4,374
2004	4,374
2005	<u>729</u>
Total payments	18,225
Less: amount representing interest	<u>2,965</u>
Present value of minimum lease payments	<u>\$ 15,260</u>

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

CHANGE IN GENERAL LONG-TERM DEBT ACCOUNT GROUP

During the year ended June 30, 2000, the following changes occurred in liabilities reported in the General Long-Term Debt Account Group. Compensated absences will be paid from the fund from which the employee is paid. Capital leases will be paid by the General Fund. The compensated absences, accrued wages and benefits payable will be paid from the fund the employee is paid from.

	Balance at July 1, <u>1999</u>	(Decrease)	Balance at June 30, <u>2000</u>
Compensated absences, accrued wages and benefits payable	\$ 105,040	\$ (43,013)	\$ 62,027
General obligation debt:			
Capital leases	<u>18,177</u>	<u>(2,917)</u>	<u>15,260</u>
Total	<u>\$ 123,217</u>	<u>\$ (45,930)</u>	<u>\$ 77,287</u>

COMPENSATED ABSENCES

The criteria for determining vesting vacation and sick leave components is derived from negotiating agreements and state laws. In summary, the components of vesting are as follows:

<u>Vacation</u>	<u>Certificated</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How earned	Not eligible unless stated in contract	Per contract	10-25 days depending on length of service after 1 year of service
Maximum Accumulation	Not applicable unless stated in contract	Non-cumulative except superintendent maximum 60 days	Non-cumulative
Vested	Not applicable or as earned	As earned	As earned
Termination Entitlement	Not applicable or paid upon termination	Paid upon termination or separation	Paid upon termination or separation
<u>Sick Leave</u>			
How earned	1-1/4 days per month of employment (15 days per year)	1-1/4 days per month of employment (15 days per year)	1-1/4 days per month of employment (15 days per year)
Maximum Accumulation	180 days	180 days	180 days
Vested	As earned	As earned	As earned
Termination Entitlement	1/4 of accumulated sick leave up to 180 days	1/4 of accumulated sick leave up to 180 days	1/4 of accumulated sick leave up to 180 days

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.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DEFINED BENEFIT PENSION PLANS

School Employees Retirement System - The 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. Chapter 3309 of the Ohio Revised Code establishes benefits. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District'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. For fiscal year 1999, 7.8% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2000, 1999 and 1998 were \$ 55,357, \$ 44,558 and \$ 36,887, respectively; 100 percent has been contributed for fiscal years 2000, 1999 and 1998.

State Teachers Retirement System - The 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. Chapter 3307 of the Ohio Revised Code establishes benefits. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

For fiscal year ended June 30, 2000, plan members were required to contribute 9.3 percent of their annual covered salaries. The District was 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 District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2000, 1999 and 1998 were \$ 338,744, \$ 314,242 and \$ 293,013, respectively; 100 percent has been contributed for fiscal years 2000, 1999 and 1998.

POST EMPLOYMENT BENEFITS

The 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.

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 Center, this amount equaled \$ 193,730 for fiscal year 2000.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

POST EMPLOYMENT BENEFITS (CONTINUED)

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.

After the allocation for basic benefits, the remainder of the employer's 14% 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% of covered payroll, an increase from 6.3% for fiscal year 1999. In addition, SERS levies a surcharge to fund health care benefits equal to 14% 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 Center, the amount contributed to fund health care benefits, including the surcharge, during the 2000 fiscal year equaled \$ 36,577.

The surcharge, added to the unallocated portion of the 14% 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% 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 to health care benefits of \$ 188.0 million. SERS has approximately 51,000 participants currently receiving health care benefits.

CONTINGENT LIABILITIES

Grants - The Center receives financial assistance from numerous federal, state and local 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 fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2000.

STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this Center. During the fiscal year ended June 30, 2000, the Center received \$ 2,475,805 school foundation support for its general fund.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

STATE SCHOOL FUNDING DECISION (CONTINUED)

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 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 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 Center is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this on its financial operations.

JOINTLY GOVERNED ORGANIZATIONS

The Lake Geauga Computer Association is a jointly governed organization consisting of 18 school districts in Lake, Geauga and Cuyahoga Counties. This 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. The executive committee consists of the member elected superintendents from participating school districts. The degree of control exercised by any participating school district is limited to its voting rights as a general member of the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting and designation management. All the consortium revenues are generated from charges for services and State funding.

The Ohio Schools Council Association (Council) is a jointly governed organization among eight-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2000, the Center paid \$ 500 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary of the Ohio Schools Council at 155 Center Road, Bedford, Ohio 44146.

CLAIMS SERVICING POOL

Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program—The Center participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a claims servicing pool, comprised of eleven members. Each member pays an administrative fee to the pool. The Plan's business and affairs are conducted by a five member Board of Directors elected from the HCBP's assembly. All participating members retain their risk and the Plan acts as the claims servicing agent.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

OSBA GROUP RATING PROGRAM

The 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 Ohio School Boards Association. 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.

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participating in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

REVENUES

The Lake County Educational Service Center is funded by the State Board of Education from State funds for the cost of part (A) of the budget. Part (B) of the budget is funded \$ 38.50 in the following way: \$ 6.50 times the ADM (total number of pupils under the Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Center provides services from payments made under the State's foundation program. Simultaneously, \$ 32 times the sum of the ADM is paid by the State Board of Education from State funds to the Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$ 38.50 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

The Lake County School Financing District's source of revenue is derived from property taxes. The Lake County Treasurer collects property tax on behalf of all the taxing districts within the County. The County Auditor periodically remits to the taxing districts their portion of the taxes collected.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

RISK MANAGEMENT

The Center has elected to provide medical coverage through a self-insured program. The Center uses the general fund to account for and finance its uninsured risks of loss in this program. The claims are serviced through the Lake County Council of Governments Health Care Benefits Program. The Lake County Council of Governments Health Care Benefits Program has stop loss coverage of 110% of expected claims. The claims liability of \$ 39,578 reported in the general fund at June 30, 2000 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount was:

	Balance at Beginning <u>of Year</u>	Current Year <u>Claims</u>	Claim <u>Payments</u>	Balance at End of <u>Year</u>
1999	\$ 34,389	\$ 253,123	\$ 251,905	\$ 35,607
2000	\$ 35,607	\$ 255,876	\$ 251,905	\$ 39,578

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LAKE COUNTY EDUCATIONAL SERVICE CENTER - LAKE COUNTY
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1999

ASSETS AND OTHER DEBITS:

	Governmental Fund Types				Account Group			Totals
	General	Special Revenue	General Fixed Assets	Long-term Debt				(Memorandum Only)
Assets:								
Equity in pooled cash and investments	\$ 684,043	\$ 272,963	\$ -	\$ -			\$ 957,006	
Cash with fiscal agent	102,559	-	-	-			102,559	
Receivables:								
Taxes	-	6,327,563	-	-			6,327,563	
Accounts	2,546	1,560	-	-			4,106	
Intergovernmental	208,305	35,027	-	-			243,332	
Due from other funds	2,626	-	-	-			2,626	
Fixed assets	-	-	178,334	-			178,334	
Other Debits:								
Amount to be provided for retirement of general long-term debt	-	-	-	123,217			123,217	
Total assets and other debits	\$ 1,000,079	\$ 6,637,113	\$ 178,334	\$ 123,217			\$ 7,938,743	

The accompanying notes are an integral part of the financial statements.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER - LAKE COUNTY
 COMBINED BALANCE SHEET (CONTINUED)
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1999**

	Governmental Fund Types			Account Group			Totals (Memorandum Only)
	General	Special Revenue	General Fixed Assets	General Long-term Debt			
LIABILITIES, FUND EQUITY AND OTHER CREDITS:							
Liabilities:							
Accounts payable	\$ 2,444	\$ 329	\$ -	\$ -	\$ -	\$ 2,773	
Intergovernmental payables	-	6,358,696	-	-	-	6,358,696	
Due to other funds	-	2,626	-	-	-	2,626	
Accrued wages and benefits	257,796	25,335	-	32,315	-	315,446	
Claims payable	35,607	-	-	-	-	35,607	
Other liability	-	3,869	-	-	-	3,869	
Compensated absences payable	-	-	-	72,725	-	72,725	
Capital lease obligations	-	-	-	18,177	-	18,177	
Total liabilities	<u>295,847</u>	<u>6,390,855</u>	<u>-</u>	<u>123,217</u>	<u>-</u>	<u>6,809,919</u>	
Fund Equity and Other Credits:							
Investment in general fixed assets	-	-	178,334	-	-	178,334	
Fund balances:							
Reserved for encumbrances	17,038	20,751	-	-	-	37,789	
Unreserved, undesignated	687,194	225,507	-	-	-	912,701	
Total fund equity and other credits	<u>704,232</u>	<u>246,258</u>	<u>178,334</u>	<u>-</u>	<u>-</u>	<u>1,128,824</u>	
Total liabilities, fund equity and other credits	<u>\$ 1,000,079</u>	<u>\$ 6,637,113</u>	<u>\$ 178,334</u>	<u>\$ 123,217</u>	<u>\$ -</u>	<u>\$ 7,938,743</u>	

The accompanying notes are an integral part of the financial statements.

LAKE COUNTY EDUCATIONAL SERVICE CENTER - LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
REVENUES:			
Revenue from local sources:			
Taxes	\$ -	\$ 6,042,958	\$ 6,042,958
Tuition	382,381	7,415	389,796
Earnings on investments	34,543	9,249	43,792
Revenue from state sources:			
Unrestricted grants-in-aid	2,789,623	445,499	3,235,122
Restricted grants-in-aid	78,981	479,096	558,077
Miscellaneous	749,337	22,691	772,028
Total revenue	<u>4,034,865</u>	<u>7,006,908</u>	<u>11,041,773</u>
EXPENDITURES:			
Instruction:			
Regular	-	464,312	464,312
Special	512,703	3,000	515,703
Vocational education	191,313	-	191,313
Other	19,000	34	19,034
Supporting services:			
Pupils	555,631	5,790	561,421
Instructional staff	1,378,925	48,854	1,427,779
Board of Education	31,085	6,491,052	6,522,137
Administration	774,285	10,733	785,018
Fiscal services	139,464	1,153	140,617
Operation and maintenance - plant	66,120	5,809	71,929
Pupil transportation	5,776	39,388	45,164
Central	175,723	626	176,349
Operation of non-instructional services:			
Community services	2,000	4,899	6,899
Extracurricular activities:			
Academic and subject-oriented activities	8,113	-	8,113
Total expenditures	<u>3,860,138</u>	<u>7,075,650</u>	<u>10,935,788</u>
Excess of revenues over expenditures	<u>174,727</u>	<u>(68,742)</u>	<u>105,985</u>
OTHER FINANCING SOURCES:			
Refund of prior year receipts	(1,721)	-	(1,721)
Refund of prior year expenditures	1,115	50	1,165
Total other financing sources	<u>(606)</u>	<u>50</u>	<u>(556)</u>
Excess of revenues and other sources over expenditures and other uses	174,121	(68,692)	105,429
BEGINNING FUND BALANCE	<u>530,111</u>	<u>314,950</u>	<u>845,061</u>
ENDING FUND BALANCE	<u>\$ 704,232</u>	<u>\$ 246,258</u>	<u>\$ 950,490</u>

The accompanying notes are an integral part of the financial statements.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER - LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
			Favorable (Unfavorable)			Favorable (Unfavorable)			Favorable (Unfavorable)
REVENUES									
Tuition	\$ 358,210	\$ 358,211	\$ 1	\$ 7,390	\$ 7,390	\$ -	\$ 365,600	\$ 365,601	\$ 1
Earnings on investments	34,543	34,543	-	9,848	9,848	-	44,391	44,391	-
Miscellaneous	730,280	730,295	15	20,686	20,686	-	750,966	750,981	15
Extracurricular activities	-	-	-	93	93	-	93	93	-
Revenue from intermediate sources - restricted	63,982	63,981	(1)	-	-	-	63,982	63,981	(1)
Revenue from state sources - unrestricted	2,789,623	2,789,623	-	-	-	-	2,789,623	2,789,623	-
Revenue from state sources - restricted	-	-	-	479,096	479,096	-	479,096	479,096	-
Revenue from federal sources - restricted	-	-	-	-	-	-	-	-	-
Total revenues	3,976,538	3,976,533	15	517,113	517,113	-	4,493,751	4,493,766	15
EXPENDITURES									
Current									
Instruction:									
Regular	-	513,735	91,280	366,948	472,120	(105,172)	366,948	472,120	(105,172)
Special	605,015	1,399,359	283,479	3,037	3,000	37	608,052	516,735	91,317
Vocational	234,814	199,000	35,814	119	-	119	234,933	199,000	35,933
Other	19,000	19,000	-	-	-	-	19,000	19,000	-
Support services:									
Pupil	681,105	572,589	108,516	5,794	5,790	4	686,899	578,379	108,520
Instructional staff	1,682,838	1,399,359	283,479	95,583	53,128	42,455	1,778,421	1,452,487	325,934
Board of Education	33,382	31,085	2,297	-	-	-	33,382	31,085	2,297
Administration	947,768	798,074	149,694	11,965	10,733	1,232	959,733	808,807	150,926
Fiscal	174,297	141,038	33,259	4,352	2,243	2,109	178,649	143,281	35,368
Operation and maintenance of plant	58,581	57,793	788	7,297	6,214	1,083	65,878	64,007	1,871
Pupil transportation	6,778	5,776	1,002	35,412	51,097	(15,685)	42,190	56,873	(14,683)
Central	221,385	185,575	35,810	844	844	-	222,229	186,419	35,810
Non-instructional services:									
Community services	3,702	2,000	1,702	4,899	4,899	-	8,601	6,899	1,702
Extracurricular activities	8,113	8,113	-	-	-	-	8,113	8,113	-
Total expenditures	4,676,778	3,933,137	743,641	536,250	610,068	(73,818)	5,213,028	4,543,205	669,823
Excess of revenue over expenditures	(700,140)	43,516	743,656	(19,137)	(92,955)	(73,818)	(719,277)	(49,439)	669,838
OTHER FINANCING SOURCES (USES)									
Transfers in	-	-	-	300,352	300,352	-	300,352	300,352	-
Transfers out	(352)	(352)	-	(300,000)	(300,000)	-	(300,352)	(300,352)	-
Advances out	(2,626)	(2,626)	-	-	-	-	(2,626)	(2,626)	-
Refund of prior year expenditures	1,115	1,115	-	50	50	-	1,165	1,165	-
Refund of prior year receipts	(1,721)	(1,721)	-	-	-	-	(1,721)	(1,721)	-
Pass-through	(101,367)	-	101,367	(9,535)	-	9,535	(110,902)	-	110,902
Total other financing uses	(104,951)	(3,584)	101,367	(9,133)	402	9,535	(114,084)	(3,182)	110,902
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(805,091)	39,932	845,023	(28,270)	(92,553)	(64,283)	(833,361)	(52,621)	780,740
FUND BALANCES - BEGINNING OF YEAR	615,237	615,237	-	310,578	310,578	-	925,815	925,815	-
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	9,841	9,841	-	33,928	33,928	-	43,769	43,769	-
FUND BALANCES - END OF YEAR	\$ (180,013)	\$ 665,010	\$ 845,023	\$ 316,236	\$ 251,953	\$ (64,283)	\$ 136,223	\$ 916,963	\$ 780,740

The accompanying notes are an integral part of the financial statements.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS**

DESCRIPTION OF THE DISTRICT

The Lake County Educational Service Center (the "Center"), formerly the Lake County Board of Education, is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a local county school district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the Center.

The Center is located in Lake County. The Center serves five local school districts: Painesville Township Local School District, Painesville City Local School District, Kirtland Local School District, Madison Local School District and Perry Local School District.

The Center employed 58 certificated employees and 16 non-certificated employees.

DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL REPORTING ENTITY

The Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The financial statements include all the organizations, activities, functions and component units for which the Center (Primary Government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the Center's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center.

On this basis, the financial statements of the Lake County School Financing District (the "Financing District") have been included in the accompanying general-purpose financial statements as a blended component unit. The Financing District is legally separate, but governed by the same board, therefore, the Center has the ability to impose its will over the Financing District. The Center acts as the fiscal agent for the Lake County School Financing District.

The Center is associated with three organizations, one jointly governed organization and two insurance purchasing pools. These organizations are the Lake Geauga Computer Association, the Lake County Schools Council of Governments' Health Care Benefits Program and the Ohio School Boards Association Workers' Compensation Group Rating Plan. Information about these organizations is discussed later in the notes to the general-purpose financial statements.

BASIS OF PRESENTATION

The accounting policies of the Center conform to generally accepted accounting principles (GAAP) as applicable to governments.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial transactions of the Center are recorded in individual funds and account groups. The various funds and account groups are reported by type in the general-purpose financial statements. Amounts in the "totals - memorandum only" columns in the general-purpose financial statements represent a summation of the combined financial statement line items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different basis of accounting, interfund transactions that have not been eliminated, and the caption "amounts to be provided", which does not represent an asset. Consequently, amounts shown in the "totals - memorandum only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the Center.

The Center uses the following fund categories, fund types and account groups:

Governmental Fund Types

Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during a period.

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

Special Revenue Funds - Special revenue funds are used to account for revenue from specific sources (other than expendable trust or major capital projects) which require separate accounting because of legal restrictions requiring that expenditures be for specified purposes.

Account Groups

Account groups are used to establish accounting control and accountability for the Center's general fixed assets and general long-term debt.

General Fixed Assets - General fixed assets are used to account for capital assets used in general government operations with a useful life of greater than one year.

General Long-Term Debt - General long-term debt is used to account for all long-term obligations of the Center, except for those accounted for in Proprietary Funds. These obligations are secured by the credit of the Center as a whole and are payable from general government resources or assessments against property owners.

BASIS OF ACCOUNTING

Governmental Fund Types are accounted for on the modified accrual basis of accounting. Governmental revenues are recognized when they become measurable and available to finance expenditures of the current period. Revenue items, which are susceptible to accrual and therefore are recorded as receivables, include property taxes and reimbursable-type grants. Expenditures are recognized when the related fund liability is incurred, with the exception of accumulated unpaid employee compensation, which is not payable from current expendable financial resources.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETARY BASIS OF ACCOUNTING

Based on the requirements of Section 3317.11, Ohio Revised Code, the budgetary process described below applies specifically to the Lake County Educational Service Center and is not applicable to the Lake County School Financing District.

The Center is required by State statute to adopt an annual appropriated budget for all fund types except agency funds. The specific timetable is as follows:

In June, the Treasurer submits to the Board of Education a temporary proposed operating budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing for all funds. In August, the Board adopts a permanent budget. Annually, on or before a date designated by the State Board of Education, the board-adopted budget is filed with the Ohio Department of Education using special Form SF5. Prior to June 30, the Board must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Estimated Resources. The budget may be further amended during the year if projected increases or decreases in revenue are identified by the Board Treasurer.

By the June Board meeting, the temporary annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures for the general fund and the fund level of expenditures for other funds, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as approved by the Board and the total of expenditures and encumbrances may not exceed the appropriation totals. Any revisions that alter the total of the general fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education. For other funds, any revisions that alter the total of the fund appropriations must be approved by the Board of Education.

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized appropriation.

Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during fiscal 1998-1999.

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Center's budgetary process accounts for certain transactions on a basis, which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.
2. Expenditures are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is susceptible to accrual for GAAP purposes.

An analysis of the difference in fund balance for all governmental fund types at June 30, 1999 as determined under the GAAP basis and budget basis follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
GAAP basis - fund balance	\$ 704,232	\$ 246,258
Net accrued revenue/prepaid expenses	(316,036)	(6,361,524)
Net accrued expenditures/deferred revenue	295,847	6,388,229
Encumbrances outstanding at June 30, 1999 (budget basis)	<u>(19,033)</u>	<u>(21,010)</u>
Budget-basis fund balance	<u>\$ 665,010</u>	<u>\$ 251,953</u>

Based on the requirements of Chapter 5705, Revised Code, the budgetary process described below applies specifically to the Lake County School Financing District and is not applicable to the Lake County Educational Service Center.

BUDGET

A budget of estimated cash receipts and disbursements is submitted to the county auditor, as secretary of the county budget commission, by January 20 of each year, for the period July 1 to June 30 fiscal year.

ESTIMATED RESOURCES

The County Budget Commission certifies its actions to the Financing District by March 1. As part of this certification, the Financing District receives the official certificate of estimated resources, which states the projected receipts of each fund.

On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the Financing District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying general-purpose financial statements do not include July 1, 1998 unencumbered fund balances. However, those fund balances are available for appropriations.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

APPROPRIATIONS

The Financing District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

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

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control. Encumbrances are reported as a reservation of fund balance in all Governmental Fund Types.

CASH AND CASH EQUIVALENTS

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

During fiscal year 1999, investments were limited to STAR Ohio (the State Treasury Asset Reserve), Treasury Notes, mutual funds and repurchase agreements. All investments of the Center had a maturity of two years or less. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts such as repurchase agreements are reported at cost.

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

Following Ohio statutes, the Center has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$ 34,543.

FIXED ASSETS AND DEPRECIATION

General Fixed Assets Account Group - General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The Center follows the policy of not capitalizing assets with a cost of less than \$ 500 or a useful life of less than one year. No depreciation is recognized for assets in the General Fixed Assets Account Group.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTERFUND TRANSACTIONS

During the course of normal operations, the Center has numerous transactions between funds, including expenditures and transfers of resources to provide services and improve assets. Operating subsidies are recorded as operating transfers. The classification of amounts recorded as subsidies, advances or equity contributions is based on the intent of the Center at the time of the transaction.

FUND BALANCE RESERVES

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances. The unreserved portions of fund equity reflected for the Governmental Fund Types are available for use within the specific purposes of those funds.

ESTIMATES

The preparation of the 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.

EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the 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 Center's 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 Center's 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 or deposit accounts including passbook accounts.

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, as security for repayment by surety company, bonds deposited with the Treasurer 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 other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Bank, Federal Farm Credit Bank, Federal Home Mortgage Corporation,

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

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 2 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 (STAR Ohio); and
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 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 Center, and must be purchased with the expectation that it will be held until maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be paid 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.

At June 30, 1999, the Center's general fund had a balance of \$ 102,559 with Lake County Council of Governments Health Care Benefits Program, a claims servicing pool (See Note). The money is held by the claims servicer in a pooled account which is representative of numerous entities and, therefore, cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Mentor Exempted Village School District. To obtain financial information, write to Mr. James Metz, Mentor Exempted Village School District, 6451 Center Street, Mentor, Ohio 44060.

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement No. 3.

Deposits - At fiscal year end, the carrying amount of the Center's deposits was \$ 71,034 and the bank balance was \$ 318,994. \$ 100,000 of the bank balance was covered by federal depository insurance. \$ 218,994 was uninsured but collateralized with securities held by an agent but not in the Center's name. Although any securities serving as collateral were held by the pledging financial institutions' trust department or agent not in the Center's name and all state statutory requirements for the deposit of money have been followed. Noncompliance with federal requirements would potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

Investments - Investments made by the Center as of June 30, 1999 are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1 Insured or registered, with investments held by the Center or its agents in the Center's name.
- Category 2 Uninsured and unregistered, with investments held by the counterparty's trust department or agent in the Center's name.
- Category 3 Uninsured and unregistered, with investments held by the counterparty, or by its trust department or agent but not in the Center's name.

	<u>Carrying Value</u>	<u>Fair Value</u>
Treasury Notes mutual fund	\$ 39,143	\$ 39,143
Corporate Cash (Category 3)	761,222	761,222
STAR Ohio	<u>85,607</u>	<u>85,607</u>
	<u>\$ 885,972</u>	<u>\$ 885,972</u>

STAR Ohio and the Treasury Notes mutual fund are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

INTERFUND TRANSACTIONS

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

	<u>Receivable</u>	<u>Payables</u>
General Fund	\$ 2,626	\$ --
Special Revenue Fund	--	<u>2,626</u>
	<u>\$ 2,626</u>	<u>\$ 2,626</u>

LAKE COUNTY SCHOOL FINANCING DISTRICT

The Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

The Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts each of such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being the Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 1999. The receivable is offset by a liability to Member Districts.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

FIXED ASSETS

A summary of changes in the General Fixed Assets Account Group is as follows:

	Balance July 1, <u>1998</u>	<u>Additions</u>	<u>Disposals</u>	Balance June 30, <u>1999</u>
Furniture and equipment	\$ 112,202	\$ 37,007	\$ 8,333	\$ 140,876
Vehicles	11,079	19,049	11,079	19,049
Equipment under capital lease	<u>20,700</u>	<u>18,409</u>	<u>20,700</u>	<u>18,409</u>
Total	<u>\$ 143,981</u>	<u>\$ 74,465</u>	<u>\$ 40,112</u>	<u>\$ 178,334</u>

CAPITALIZED LEASE - EQUIPMENT

The Center has entered into a capitalized lease for the acquisition of a copier. The terms of the agreement provide an option to purchase the 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 risk of ownership to the lessee at the conclusion of the lease term.

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

<u>Year Ending June 30</u>	<u>Amount</u>
2000	\$ 4,374
2001	4,374
2002	4,374
2003	4,374
2004	4,374
2005	<u>729</u>
Total payments	22,599
Less: Amount representing interest	<u>4,422</u>
Present value of minimum lease payments	<u>\$ 18,177</u>

CHANGE IN GENERAL LONG-TERM DEBT ACCOUNT GROUP

During the year ended June 30, 1999, the following changes occurred in liabilities reported in the General Long-Term Debt Account Group. Compensated absences will be paid from the fund from which the employee is paid. Capital leases will be paid from the General Fund. The compensated absences, accrued wages and benefits payable will be paid from the fund the employee is paid from.

	Balance at July 1, <u>1998</u>	Increase (Decrease)	Balance at June 30, <u>1999</u>
Compensated absences, accrued wages and benefits payable	\$ 102,539	\$ 2,501	\$ 105,040
General obligation debt:			
Capital leases	<u>6,260</u>	<u>11,917</u>	<u>18,177</u>
Total	<u>\$ 108,799</u>	<u>\$ 14,418</u>	<u>\$ 123,217</u>

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

OTHER LIABILITY

A taxpayer has made duplicate personal property tax payments on certain property physically located at the Perry Nuclear Plant. By agreement between the County and the taxpayer, repayment of the current liability will occur August 1999 through March 2000. The Center's portion of the amount owed at June 30, 1999 is \$ 3,869, which is booked as a liability of the Special Revenue Fund.

COMPENSATED ABSENCES

The criteria for determining vesting vacation and sick leave components is derived from negotiating agreements and state laws. In summary, the components of vesting are as follows:

<u>Vacation</u>	<u>Certificated</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How earned	Not eligible unless stated in contract	Per contract	10-25 days depending on length of service after 1 year of service
Maximum Accumulation	Not applicable unless stated in contract	Non-cumulative except superintendent maximum 60 day	Non-cumulative
Vested	Not applicable or as earned	As earned	As earned
Termination Entitlement	Not applicable or paid upon termination	Paid upon termination or separation	Paid upon termination or separation
<u>Sick Leave</u>			
How earned	1-1/4 days per month of employment (15 days per year)	1-1/4 days per month of employment (15 days per year)	1-1/4 days per month of employment (15 days per year)
Maximum Accumulation	180 days	180 days	180 days
Vested	As earned	As earned	As earned
Termination Entitlement	1/4 of accumulated sick leave up to 120 days	1/4 of accumulated sick leave up to 120 days	1/4 of accumulated sick leave up to 120 days

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.

DEFINED BENEFIT PENSION PLANS

School Employees Retirement System - The 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. Chapter 3309 of the Ohio Revised Code establishes benefits. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. For fiscal year 1999, 7.8% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998 and 1997 were \$ 44,558, \$ 36,887 and \$ 33,711, respectively equal to the required contributions for each year.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DEFINED BENEFIT PENSION PLANS (CONTINUED)

State Teachers Retirement System - The 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. Chapter 3307 of the Ohio Revised Code establishes benefits. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

Plan members were required to contribute 9.3 percent of their annual covered salaries. The Center was 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 Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998 and 1997 were \$ 314,242, \$ 293,013 and \$ 219,863, respectively equal to the required contributions for each year.

POST EMPLOYMENT BENEFITS

The 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 Teachers 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 the 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. Through June 30, 1999, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$ 79,616.

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

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

For this fiscal year, employer contributions to fund health care benefits were 6.3 percent of covered payroll. 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, prorated for partial service credit. For fiscal year 1998, the minimum pay has been established at \$ 12,400. 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.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

POST EMPLOYMENT BENEFITS (CONTINUED)

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 were \$ 111,900,575 and the target level was \$ 139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$ 160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the Center, the amount to fund health care benefits, including surcharge, equaled \$ 19,894 during the 1999 fiscal years.

CONTINGENT LIABILITIES

Grants - The Center receives financial assistance from numerous federal, state and local 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 fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 1999.

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 District. During the fiscal year ended June 30, 1999, the District received \$ 2,699,987 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. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the District 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.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

JOINTLY GOVERNED ORGANIZATIONS

The Lake Geauga Computer Association is a jointly governed organization consisting of 18 school districts in Lake, Geauga and Cuyahoga Counties. This 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. The executive committee consists of the member elected superintendents from participating school districts. The degree of control exercised by any participating school district is limited to its voting rights as a general member of the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting and designation management. All the consortium revenues are generated from charges for services and State funding.

The Ohio Schools Council Association (Council) is a jointly governed organization among eight-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 1999, the Center paid \$ 500 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary of the Ohio Schools Council at 155 Center Street, Bedford, OH 44146.

CLAIMS SERVICING POOL

Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program—The Center participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a claims servicing pool, comprised of eleven members. Each member pays an administrative fee to the pool. The Plan's business and affairs are conducted by a five member Board of Directors elected from the HCBP's assembly. All participating members retain their risk and the Plan acts as the claims servicing agent.

OSBA GROUP RATING PROGRAM

The 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 Ohio School Boards Association. 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.

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participating in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

REVENUES

The Lake County Educational Service Center is funded by the State Board of Education from State funds for the cost of part (A) of the budget. Part (B) of the budget is funded \$ 38.50 in the following way: \$ 6.50 times the ADM (total number of pupils under the Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Center provides services from payments made under the State's foundation program. Simultaneously, \$ 32 times the sum of the ADM is paid by the State Board of Education from State funds to the Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$ 38.50 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

The Lake County School Financing District's source of revenue is derived from property taxes. The Lake County Treasurer collects property tax on behalf of all the taxing districts within the County. The County Auditor periodically remits to the taxing districts their portion of the taxes collected.

RISK MANAGEMENT

The Center has elected to provide medical coverage through a self-insured program. The Center uses the general fund to account for and finance its uninsured risks of loss in this program. The claims are serviced through the Lake County Council of Governments Health Care Benefits Program. The Lake County Council of Governments Health Care Benefits Program has stop loss coverage of 110% of expected claims. The claims liability of \$ 35,607 reported in the general fund at June 30, 1999 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in 1999 was:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
1999	<u>\$ 34,389</u>	<u>\$ 253,123</u>	<u>\$ 251,905</u>	<u>\$ 35,607</u>

Information for 1998 is not available.



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

Lake County Educational Service Center
Lake County
P.O. Box 490
105 Main Street
Painesville, Ohio 44077

To the Governing Board:

We have audited the general-purpose financial statements of the Lake County Educational Service Center, Lake County, Ohio, (the Center), as of and for the years ended June 30, 2000 and June 30, 1999, and have issued our report thereon dated December 27, 2000. We conducted our audits 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 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 audits 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 audits, we considered the 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 Center in a separate letter dated December 27, 2000.

Lake County Educational Service Center
Lake County
Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
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This report is intended for the information of the 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 27, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

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LAKE COUNTY SERVICE CENTER

LAKE 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**