REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2003 & 2002



Auditor of State Betty Montgomery

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors Lakeshore Northeast Ohio Computer Association Cuyahoga County 7800 Wall Street Valley View, Ohio 44125

We have audited the accompanying financial statements of the Lakeshore Northeast Ohio Computer Association, Cuyahoga County, Ohio, (LNOCA) as of and for the years ended June 30, 2003 and June 30, 2002. These financial statements are the responsibility of LNOCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, LNOCA prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Lakeshore Northeast Ohio Computer Association, Cuyahoga County, Ohio as of June 30, 2003 and June 30, 2002, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2003 on our consideration of LNOCA'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.

This report is intended solely for the information and use of management, Board of Directors and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Bitty Montgomeny

Betty Montgomery Auditor of State

December 12, 2003

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES FOR THE YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2002

	2003	2002
Operating Cash Receipts:		
Service Fees	\$2,739,967	\$1,520,937
Total Operating Cash Receipts	2,739,967	1,520,937
Operating Cash Disbursements:		
Salaries	1,052,259	924,174
Fringe Benefits	294,009	244,417
Purchase Resources	1,056,505	875,745
Supplies and Materials	518,599	157,794
Capital Outlay	387,707	77,628
Other	15,318	16,690
Total Operating Cash Disbursements	3,324,397	2,296,448
Operating Loss	(584,430)	(775,511)
Non-Operating Cash Receipts:		
Earnings on Investments	39,578	72,574
LSTA Grant	821,076	-
State Sources Receipts	796,742	994,572
Total Non-Operating Cash Receipts	1,657,396	1,067,146
Excess of Receipts Over/(Under) Disbursements	1,072,966	291,635
Fund Cash Balances, July 1	2,001,963	1,710,328
Fund Cash Balances, June 30	\$ 3,074,929	\$ 2,001,963

The notes to the financial statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Empowered by Section 3313.92, Ohio Revised Code, the Lakeshore Northeast Ohio Computer Association (LNOCA) is a cooperative computer consortium open to any public school district within the geographic area determined by the State Department of Education. The geographic area includes Cuyahoga County. The mission of LNOCA is to provide quality, cost-effective services that enable member school districts, individually and interactively, to manage data and to utilize technology effectively for educational and administrative purposes. The Treasurer of the Cuyahoga County Educational Service Center (ESC) is the Fiscal Agent for LNOCA.

LNOCA presently has sixteen member school districts, and the ESC. LNOCA's Board consists of the Superintendent of each member school district. Annually, the members elect a Chairman, Vice Chairman, and Recording Secretary.

LNOCA's management believes these financial statements present all activities for which LNOCA is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Section 3313.92, Ohio Revised Code, requires the ESC to act as the fiscal agent of LNOCA. All collections are remitted to either the Treasurer or to a local depository for deposit. All disbursements are made by check prepared by the Treasurer, and drawn on deposits held in the name of the ESC. The Treasurer pools all funds for investment purposes. Pooled cash and investments held by the fiscal agent for LNOCA as of June 30, 2003 and 2002 totaled \$3,074,929 and \$2,001,963, respectively.

D. Fund Accounting

LNOCA uses fund accounting to segregate cash and investments that are restricted as to use. LNOCA classifies its fund as an Enterprise Fund.

This fund accounts for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2003 AND 2002 (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

F. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by LNOCA.

2. RELATED PARTY TRANSACTIONS

In each of the fiscal years 2003 and 2002, LNOCA received service fee contributions from member school districts of \$2,739,967 and \$1,520,937, respectively. These contributions are reflected as Service Fees operating cash receipts in the accompanying financial statements.

3. RETIREMENT SYSTEMS

LNOCA's employees are covered by the School Employees Retirement Systems (SERS). SERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, members of SERS contributed 9% of their gross wages. LNOCA contributed an amount equal to 14% of participant's wages. LNOCA has paid all contributions required through June 30, 2003.

4. RISK MANAGEMENT

The ESC has obtained commercial insurance, which includes coverage for LNOCA, for the following risks:

- Comprehensive property and general liability
- Vehicles
- Errors and omissions

Full-time employees of LNOCA are also provided with health insurance and dental and vision coverage through a private carrier.

5. ON BEHALF GRANT

The ESC received a grant from the State Library of Ohio to upgrade computer equipment and access lines to the computer system. This grant benefited LNOCA and its member districts. It is shown on the accompanying financial statements as LSTA grant non operating cash receipts and as capital outlay operating cash disbursements. No cash activity occurred with regards to this grant between the ESC and LNOCA. The revenues and expenses associated with this grant are recorded as on behalf payments by the ESC. The amount of revenue and expenses associated with this grant was \$821,076 in 2003 and \$0 in 2002.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Board of Directors Lakeshore Northeast Ohio Computer Association Cuyahoga County 7800 Wall Street Valley View, Ohio 44125

We have audited the financial statements of the Lakeshore Northeast Ohio Computer Association, Cuyahoga County, Ohio, (LNOCA) as of and for the years ended June 30, 2003 and June 30, 2002, and have issued our report thereon dated December 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 LNOCA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of LNOCA in a separate letter dated December 12, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered LNOCA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of LNOCA in a separate letter dated December 12, 2003.

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

Betty Montgomeny

Betty Montgomery Auditor of State

December 12, 2003



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LAKESHORE NORTHEAST OHIO COMPUTER ASSOCIATION

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbett

CLERK OF THE BUREAU

CERTIFIED JANUARY 8, 2004