



**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2000 AND 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Geauga County Educational Service Center
Geauga County
470 Center Street, Building 2
Chardon, Ohio 44024

We have audited the accompanying general-purpose financial statements of the Geauga County Educational Service Center, Geauga County, Ohio, (the Service 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 Service 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 Geauga County Educational Service Center, Geauga County, Ohio, as of June 30, 2000 and June 30, 1999, and the results of its operations and the statements of changes in net assets 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 October 31, 2000 on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Jim Petro
Auditor of State

October 31, 2000

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

	<u>Governmental Fund Types</u>		Fiduciary Fund Types
	<u>General</u>	<u>Special Revenue</u>	Trust and Agency
Assets and Other Debit			
Assets			
Equity in Pooled Cash and Cash Equivalents	\$685,118	\$161,761	\$622,512
Receivables:			
Accounts	3,140	0	0
Intergovernmental	46,518	8,469	116,694
Interfund	1,000	0	0
Fixed Assets	0	0	0
Other Debit			
Amount to be Provided from General Government Resources	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Assets and Other Debit</i>	<u><u>\$735,776</u></u>	<u><u>\$170,230</u></u>	<u><u>\$739,206</u></u>
Liabilities, Fund Equity and Other Credits			
Liabilities			
Accounts Payable	\$4,971	\$11,432	\$14,385
Accrued Wages	272,417	26,217	0
Intergovernmental Payable	55,445	5,007	3,426
Compensated Absences Payable	4,660	0	33,915
Interfund Payable	<u>0</u>	<u>1,000</u>	<u>0</u>
<i>Total Liabilities</i>	<u>337,493</u>	<u>43,656</u>	<u>51,726</u>
Fund Equity and Other Credits			
Investment in General Fixed Assets	0	0	0
Net Assets	0	0	687,480
Fund Balance:			
Reserved for Encumbrances	7,259	7,153	0
Unreserved, Undesignated	<u>391,024</u>	<u>119,421</u>	<u>0</u>
<i>Total Fund Equity and Other Credits</i>	<u>398,283</u>	<u>126,574</u>	<u>687,480</u>
<i>Total Liabilities, Fund Equity and Other Credits</i>	<u><u>\$735,776</u></u>	<u><u>\$170,230</u></u>	<u><u>\$739,206</u></u>

See accompanying notes to the general purpose financial statements.

Account Groups		
General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
\$0	\$0	\$1,469,391
0	0	3,140
0	0	171,681
0	0	1,000
187,164	0	187,164
<u>0</u>	<u>231,998</u>	<u>231,998</u>
<u>\$187,164</u>	<u>\$231,998</u>	<u>\$2,064,374</u>
\$0	\$0	\$30,788
0	0	298,634
0	4,126	68,004
0	227,872	266,447
0	0	1,000
<u>0</u>	<u>231,998</u>	<u>664,873</u>
187,164	0	187,164
0	0	687,480
0	0	14,412
0	0	510,445
<u>187,164</u>	<u>0</u>	<u>1,399,501</u>
<u>\$187,164</u>	<u>\$231,998</u>	<u>\$2,064,374</u>

**Geauga County Educational Service Center
Geauga County**

*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2000*

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
Revenues			
Intergovernmental	\$1,265,827	\$472,639	\$1,738,466
Customer Services	1,891,265	52,987	1,944,252
Tuition and Fees	25,434	72,630	98,064
Interest	27,536	0	27,536
Donations	3,881	0	3,881
Extracurricular Activities	50	0	50
Miscellaneous	121,626	0	121,626
<i>Total Revenues</i>	<u>3,335,619</u>	<u>598,256</u>	<u>3,933,875</u>
Expenditures			
Current:			
Instruction:			
Regular	0	167,930	167,930
Special	1,250,735	46,534	1,297,269
Adult/Continuing	1,300	20,631	21,931
Support Services:			
Pupils	912,007	34,677	946,684
Instructional Staff	823,014	236,581	1,059,595
Board of Education	13,508	0	13,508
Administration	189,122	3,905	193,027
Fiscal	93,433	3,494	96,927
Business	9,778	0	9,778
Operation and Maintenance of Plant	1,703	1,000	2,703
Central	17,482	3,116	20,598
Debt Service:			
Principal Retirement	3,225	0	3,225
Interest and Fiscal Charges	157	0	157
<i>Total Expenditures</i>	<u>3,315,464</u>	<u>517,868</u>	<u>3,833,332</u>
<i>Excess of Revenues Over Expenditures</i>	20,155	80,388	100,543
<i>Fund Balances Beginning of Year</i>	<u>378,128</u>	<u>46,186</u>	<u>424,314</u>
<i>Fund Balances End of Year</i>	<u>\$398,283</u>	<u>\$126,574</u>	<u>\$524,857</u>

See accompanying notes to the general purpose financial statements.

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

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Intergovernmental	\$1,265,827	\$1,265,827	\$0
Customer Services	1,926,170	1,926,170	0
Tuition and Fees	25,434	25,434	0
Interest	27,536	27,536	0
Donations	3,881	3,881	0
Extracurricular Activities	50	50	0
Miscellaneous	121,626	121,626	0
<i>Total Revenues</i>	<u>3,370,524</u>	<u>3,370,524</u>	<u>0</u>
Expenditures			
Current:			
Instruction:			
Regular	0	0	0
Special	1,482,823	1,196,190	286,633
Adult/Continuing	1,746	1,300	446
Support Services:			
Pupils	907,540	882,036	25,504
Instructional Staff	993,057	814,040	179,017
Board of Education	17,236	13,539	3,697
Administration	199,516	189,342	10,174
Fiscal	107,331	92,521	14,810
Business	10,550	9,778	772
Operation and Maintenance of Plant	7,000	5,086	1,914
Central	22,600	16,940	5,660
<i>Total Expenditures</i>	<u>3,749,399</u>	<u>3,220,772</u>	<u>528,627</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(378,875)</u>	<u>149,752</u>	<u>528,627</u>
Other Financing Sources (Uses)			
Advances In	5,000	5,000	0
Advances Out	(1,000)	(1,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>4,000</u>	<u>4,000</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(374,875)</u>	<u>153,752</u>	<u>528,627</u>
<i>Fund Balances Beginning of Year</i>	504,652	504,652	0
<i>Prior Year Encumbrances Appropriated</i>	<u>14,635</u>	<u>14,635</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u><u>\$144,412</u></u>	<u><u>\$673,039</u></u>	<u><u>\$528,627</u></u>

See accompanying notes to the general purpose financial statements.

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$485,236	\$472,645	(\$12,591)	\$1,751,063	\$1,738,472	(\$12,591)
52,987	52,987	0	1,979,157	1,979,157	0
72,630	72,630	0	98,064	98,064	0
0	0	0	27,536	27,536	0
0	0	0	3,881	3,881	0
0	0	0	50	50	0
0	0	0	121,626	121,626	0
<u>610,853</u>	<u>598,262</u>	<u>(12,591)</u>	<u>3,981,377</u>	<u>3,968,786</u>	<u>(12,591)</u>
195,630	144,099	51,531	195,630	144,099	51,531
59,246	48,666	10,580	1,542,069	1,244,856	297,213
33,720	20,932	12,788	35,466	22,232	13,234
69,292	33,134	36,158	976,832	915,170	61,662
288,244	242,998	45,246	1,281,301	1,057,038	224,263
0	0	0	17,236	13,539	3,697
8,155	4,235	3,920	207,671	193,577	14,094
5,931	3,501	2,430	113,262	96,022	17,240
0	0	0	10,550	9,778	772
3,200	1,000	2,200	10,200	6,086	4,114
3,600	3,116	484	26,200	20,056	6,144
<u>667,018</u>	<u>501,681</u>	<u>165,337</u>	<u>4,416,417</u>	<u>3,722,453</u>	<u>693,964</u>
<u>(56,165)</u>	<u>96,581</u>	<u>152,746</u>	<u>(435,040)</u>	<u>246,333</u>	<u>681,373</u>
1,000	1,000	0	6,000	6,000	0
<u>(5,000)</u>	<u>(5,000)</u>	<u>0</u>	<u>(6,000)</u>	<u>(6,000)</u>	<u>0</u>
<u>(4,000)</u>	<u>(4,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(60,165)	92,581	152,746	(435,040)	246,333	681,373
50,543	50,543	0	555,195	555,195	0
52	52	0	14,687	14,687	0
<u>(\$9,570)</u>	<u>\$143,176</u>	<u>\$152,746</u>	<u>\$134,842</u>	<u>\$816,215</u>	<u>\$681,373</u>

Geauga County Educational Service Center

Geauga County

Statement of Changes in Net Assets

Fiduciary Fund Type

For the Fiscal Year Ended June 30, 2000

	<u>External Investment Trust</u>
Revenues	
Interest	\$26,823
Expenses	
Operating Expenses	<u>0</u>
<i>Net Increase in Assets Resulting from Operations</i>	26,823
Distribution to Participants	(26,823)
Capital Transactions	<u>170,442</u>
<i>Total Increase in Net Assets</i>	143,619
<i>Net Assets Beginning of Year</i>	<u>543,861</u>
<i>Net Assets End of Year</i>	<u><u>\$687,480</u></u>

See accompanying notes to the general purpose financial statements.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

Note 1 - Description of the Educational Service Center

On July 1, 1914, the Geauga County Educational Service Center was formed. The Educational Service Center supplies supervisory, administrative, and other needed services to local school districts.

The Educational Service Center operates under a locally-elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's instructional support services staffed by 36 noncertificated, 20 certificated teaching personnel, and 22 administrators who provide services to 13,053 students.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds that are not legally separate for the Educational Service Center. For the Educational Service Center, this is providing necessary services to local school districts.

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

The Educational Service Center is associated with certain organizations which are defined as a Jointly Governed Organization and an Insurance Purchasing Pool. These organizations are presented in Note 8 to the general purpose financial statements. These organizations include the Lake-Geauga Computer Consortium and the Ohio School Boards Association Workers' Compensation Group Rating Plan.

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources.

A. Basis of Presentation - Fund Accounting

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation - Fund Accounting (Continued)

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

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

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

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

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

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

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

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

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Measurement Focus and Basis of Accounting

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

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

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

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, grants, and excess costs.

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

The investment trust fund reports transactions and balances using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of these funds are included on the balance sheet.

C. Budgetary Data

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

Estimated Revenues:

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Budgetary Data (Continued)

Appropriations:

The annual appropriation resolution must be legally enacted by the Educational Service Center's Board at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Educational Service Center's Board. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the budget approved by the State Board of Education. During the year, several budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Encumbrances:

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

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

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

During fiscal year 2000, investments were limited to STAR Ohio, the State Treasurer's Investment Pool. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2000.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

D. Cash and Cash Equivalents (Continued)

Under existing Ohio statutes, the Board of Education may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2000, the general fund received interest earned in the amount of \$27,536.

E. Inventory

Inventories are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available spendable resources even though it is a component of net current assets. There was no significant inventory balance at June 30, 2000.

F. Fixed Assets and Depreciation

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

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

G. Intergovernmental Revenues

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

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

Entitlements

General Fund
State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds
Adult Basic Literacy
Economic Education
Eisenhower
At Risk Preschool

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Intergovernmental Revenues (Continued)

- Drug Free Schools
- Educational Management Information System
- Public Preschool
- Early Education
- Alternative School
- Computer Network
- Teen Institute

Grants and entitlements amounted to 44 percent of the Educational Service Center's operating revenue during the 2000 fiscal year.

H. Pass-Through Grants

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

I. Interfund Assets and Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to the other funds" on the combined balance sheet. Short-term interfund loans are classified as "interfund receivable/payables."

J. Compensated Absences

The Educational Service Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

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 is accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditure/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Fund Balance Reserves

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

N. Estimates

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

O. Memorandum Only - Total Columns

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 3 - Budgetary Basis of Accounting

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

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

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

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

	<i>General</i>	<i>Special Revenue</i>
<i>GAAP Basis</i>	\$20,155	\$80,388
Net Adjustment for Revenue Accruals	34,905	6
Advances In	5,000	(5,000)
Net Adjustment for Expenditure Accruals	106,770	34,772
Advances Out	(1,000)	1,000
Adjustment for Encumbrances	(12,078)	(18,585)
<i>Budget Basis</i>	\$153,752	\$92,581

Note 4 - Deposits and Investments

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

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

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 4 - Deposits and Investments(Continued)

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

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily; and that the term of the agreement does not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 4 - Deposits and Investments (Continued)

Deposits:

At year-end, the carrying amount of the Educational Service Center's deposits was \$87,085 and the bank balance was \$228,667. \$100,000 was covered by federal depository insurance and \$128,667 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments:

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements", requires the Educational Service Center to categorize investments to give an indication of the level of risk assumed by the Educational Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center invests in STAR Ohio which is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form. The carrying and market value of the STAR Ohio investment at June 30, 2000 was \$1,382,306.

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

	<i>Cash and Cash Equivalents/Deposits</i>	<i>Investments</i>
<i>GASB Statement No. 9</i>	\$1,469,391	\$0
Investments:		
STAR Ohio	(1,382,306)	1,382,306
<i>GASB Statement No. 3</i>	\$87,085	\$1,382,306

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 5 - Receivables

Receivables at June 30, 2000, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivable follows:

	<i>Amounts</i>
<i>General Fund:</i>	
Excess Cost Reimbursement	\$46,518
<i>Adult Basic Education Special Revenue Fund</i>	
	8,469
<i>Computer Agency Fund</i>	
	116,694
<i>Total Intergovernmental Receivables</i>	\$171,681

Note 6 - External Investment Pool

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

*Statement of Net Assets
June 30, 2000*

Assets

Equity in Pooled Cash and Cash Equivalents	\$1,469,391
<i>Total Assets</i>	\$1,469,391

Net Asset Held in Trust for Pool Participants

Internal Portion	\$846,879
External Portion	622,512
<i>Total Net Assets Held in Trust for Pool Participants</i>	\$1,469,391

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 6 - External Investment Pool (Continued)

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

Revenues	
Interest	\$54,359
Expenses	
Operating Expenses	0
<i>Net Increase in Assets Resulting from Operations</i>	54,359
Distribution to Participants	(54,359)
Capital Transactions	321,811
<i>Total Increase in Net Assets</i>	321,811
<i>Net Assets Beginning of Year</i>	1,147,580
<i>Net Assets End of Year</i>	\$1,469,391

Note 7 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. All other lawful expenditures are funded by both State and local funds. The Educational Service Center receives \$36.00 for all other lawful expenditures and it is comprised of the following: six dollars and fifty cents times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school district's to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, twenty-nine dollars and fifty cents times the sum of the ADM is paid by the State Board of Education from State funds.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of \$36.00 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Note 8 - Jointly Governed Organization and Insurance Purchasing Pool

The Lake-Geauga Education Computer Consortium is a jointly governed organization consisting of 18 school districts in Lake, Geauga and Cuyahoga County. 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 at general assembly meetings. The Educational Service Center is the fiscal agent as well as a voting 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. To obtain financial information, write to the Lake-Geauga Education Computer Consortium, 8140 Auburn Road, Painesville, Ohio, 44077.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 8 - Jointly Governed Organization and Insurance Purchasing Pool (Continued)

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Grating Program (the Plan), an insurance purchasing pool. The Plan's business affairs are conducted by a three member Board of directors consisting of the president, the president-Elect and the Immediate Past president of the OSBA. The Plan is intended to reduce premiums for the participants. 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 Plan. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan.

Note 9 - Fixed Assets

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

	<i>Balance June 30, 1999</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance June 30, 2000</i>
Furniture and Fixtures	\$184,125	\$3,039	\$0	\$187,164
<i>Total</i>	<u>\$184,125</u>	<u>\$3,039</u>	<u>\$0</u>	<u>\$187,164</u>

There was no significant construction in progress at June 30, 2000.

Note 10 Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2000, the Educational Service Center was insured under the county wide contract held by the Geauga County Commissioners.

Settled claims have not exceeded this commercial coverage in any of the past three years.

Professional liability is protected by the Nationwide Insurance Company with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Vehicles are covered by Nationwide Insurance Company and hold a \$100 deductible for comprehensive and a \$500 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability.

Note 11- Defined Benefit Pension Plan

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, annual cost-of-living adjustments, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 11- Defined Benefit Pension Plan (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 2000, 5.5 percent was the portion to fund pension obligations. The contribution rates of plan members and employees are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The Educational Service Center's contributions to SERS for the years ending June 30, 2000, 1999 and 1998 were \$54,909, \$83,589, and \$62,703 respectively, equal to the required contributions for each year. 97 percent was paid for fiscal years 2000 and 100 percent for fiscal years 1999 and 1998. \$4,126 representing the unpaid contribution for fiscal year 2000, is recorded as a liability in the general long-term obligation account group.

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contributions to STRS for the years ending June 30, 2000, 1999, and 1998 were \$122,997, \$165,345, and \$184,655 respectively, equal to the required contributions for each year. 100 percent was paid for fiscal years 2000, 1999 and 1998.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose social security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2000, two of the board of education members have elected social security. The board's liability is 6.2% of the wages paid.

Note 12 - Post Employment Benefits

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 12 - Post Employment Benefits (Continued)

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to eight percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the Educational Service Center, this amount equaled \$163,996 during the 2000 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1999,(the latest information available) the balance of the fund was \$2,783 million. For the year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000 and STRS had 95,796 eligible benefits 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 fiscal year 2000, employer contributions to fund health care benefits were 8.5 of covered payroll, an increase of 2.2 percent for fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. The surcharge rate added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. For fiscal year 2000, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$67,021, during the 2000 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserves is 150 percent of annual health care expenses. Expenses for health care at June 30, 1999(the latest information available), were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999 SERS had net assets available for payment of health care benefits of \$188.0 million. SERS has approximately 51,000 participating currently receiving health care benefits.

Note 13 - Employee Benefits

A. *Compensated Absences*

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to two hundred twenty days.

Upon retirement, employees with less than eleven years of service are eligible to receive payment for one-fourth of their total sick leave accumulation up to thirty days. Employees with eleven to fourteen years of service are eligible to receive payment for one-fourth of their total sick leave accumulation up to fifty-three days. Employees with over fifteen years of service are eligible to receive payment for one-fourth of their total sick leave accumulation up to fifty-five days.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 13 - Employee Benefits (Continued)

B. Life Insurance

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Life Insurance Trust, coverage amount is \$40,000 per employee.

Note 14 - Long-Term Obligations

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

	<i>Principal Outstanding June 30, 1999</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding June 30,2000</i>
<i>Capital Leases:</i>				
Toshiba 8050	\$3,225	\$0	\$3,225	\$0
<i>Total Capital Leases</i>	<u>3,225</u>	<u>0</u>	<u>3,225</u>	<u>0</u>
<i>Intergovernmental Payable</i>	5,963	4,126	5,963	4,126
<i>Compensated Absences</i>	222,601	5,271	0	227,872
<i>Total Long-Term Obligations</i>	<u>\$231,789</u>	<u>\$9,397</u>	<u>\$9,188</u>	<u>\$231,998</u>

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

Note 15 - Interfund Transactions

Interfund balances at June 30, 2000, consist of a receivable of \$1,000 for the general fund and a payable of \$1,000 for the adult basic education special revenue fund.

Note 16 - Contingencies

A. Grants

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

B. Litigation

The Educational Service Center is not a part of or involved in any legal proceedings at this time.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 17 - School Funding Issue

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this Educational Service Center. During the fiscal year ended June 30, 2000, the Educational Service Center received \$1,228,923 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. The State appealed the decision made by the Court of Common Pleas to the 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 Educational Service Center is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and its financial operations.

Geauga County Educational Service Center

Geauga County

Combined Balance Sheet

All Fund Types and Account Groups

June 30, 1999

	<u>Governmental Fund Types</u>		<u>Fiduciary</u>
	<u>General</u>	<u>Special</u>	<u>Fund Types</u>
		<u>Revenue</u>	<u>Trust</u>
			<u>and</u>
			<u>Agency</u>
Assets and Other Debit			
Assets			
Equity in Pooled Cash and Cash Equivalents	\$519,288	\$50,595	\$577,699
Receivables:			
Intergovernmental	84,563	8,475	7,860
Interfund	5,000	0	0
Fixed Assets	0	0	0
Other Debit			
Amount to be Provided from General Government Resources	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Assets and Other Debit</i>	<u><u>\$608,851</u></u>	<u><u>\$59,070</u></u>	<u><u>\$585,559</u></u>
Liabilities, Fund Equity and Other Credits			
Liabilities			
Accounts Payable	\$6,431	\$0	\$8,418
Accrued Wages	182,046	5,247	0
Intergovernmental Payable	41,158	2,637	7,845
Compensated Absences Payable	1,088	0	25,435
Interfund Payable	0	5,000	0
Capital Leases Payable	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Liabilities</i>	<u>230,723</u>	<u>12,884</u>	<u>41,698</u>
Fund Equity and Other Credits			
Investment in General Fixed Assets	0	0	0
Net Assets	0	0	543,861
Fund Balance:			
Reserved for Encumbrances	13,885	52	0
Unreserved, Undesignated	<u>364,243</u>	<u>46,134</u>	<u>0</u>
<i>Total Fund Equity and Other Credits</i>	<u>378,128</u>	<u>46,186</u>	<u>543,861</u>
<i>Total Liabilities, Fund Equity and Other Credits</i>	<u><u>\$608,851</u></u>	<u><u>\$59,070</u></u>	<u><u>\$585,559</u></u>

See accompanying notes to the general purpose financial statements.

<u>Account Groups</u>		
<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	<u>Totals (Memorandum Only)</u>
\$0	\$0	\$1,147,582
0	0	100,898
0	0	5,000
184,125	0	184,125
<u>0</u>	<u>231,789</u>	<u>231,789</u>
<u>\$184,125</u>	<u>\$231,789</u>	<u>\$1,669,394</u>
\$0	\$0	\$14,849
0	0	187,293
0	5,963	57,603
0	222,601	249,124
0	0	5,000
0	3,225	3,225
<u>0</u>	<u>231,789</u>	<u>517,094</u>
184,125	0	184,125
0	0	543,861
0	0	13,937
<u>0</u>	<u>0</u>	<u>410,377</u>
<u>184,125</u>	<u>0</u>	<u>1,152,300</u>
<u>\$184,125</u>	<u>\$231,789</u>	<u>\$1,669,394</u>

Geauga County Educational Service Center
Geauga County
Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 1999

	<u>Governmental Fund Types</u>		Totals
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
Revenues			
Intergovernmental	\$2,074,524	\$344,205	\$2,418,729
Customer Services	508,417	0	508,417
Tuition and Fees	26,974	0	26,974
Interest	28,500	0	28,500
Donations	17,198	0	17,198
Extracurricular Activities	128	0	128
Miscellaneous	84,572	0	84,572
<i>Total Revenues</i>	<u>2,740,313</u>	<u>344,205</u>	<u>3,084,518</u>
Expenditures			
Current:			
Instruction:			
Special	897,534	47,505	945,039
Adult/Continuing	2,054	13,209	15,263
Support Services:			
Pupils	673,933	134,338	808,271
Instructional Staff	814,599	50,643	865,242
Board of Education	17,240	0	17,240
Administration	171,418	7,775	179,193
Fiscal	85,577	5,150	90,727
Business	7,535	0	7,535
Operation and Maintenance of Plant	1,230	1,000	2,230
Central	11,535	77,900	89,435
Operation of Non-Instructional Services	5,091	0	5,091
Debt Service:			
Principal Retirement	4,353	0	4,353
Interest and Fiscal Charges	628	0	628
<i>Total Expenditures</i>	<u>2,692,727</u>	<u>337,520</u>	<u>3,030,247</u>
<i>Excess of Revenues Over Expenditures</i>	47,586	6,685	54,271
<i>Fund Balances Beginning of Year</i>	<u>330,542</u>	<u>39,501</u>	<u>370,043</u>
<i>Fund Balances End of Year</i>	<u>\$378,128</u>	<u>\$46,186</u>	<u>\$424,314</u>

See accompanying notes to the general purpose financial statements.

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Geauga County Educational Service Center
Geauga County
Combined Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Fiscal Year Ended June 30, 1999

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Intergovernmental	\$2,074,524	\$2,074,524	\$0
Customer Services	516,029	516,029	0
Tuition and Fees	26,974	26,974	0
Interest	28,500	28,500	0
Donations	17,198	17,198	0
Extracurricular Activities	128	128	0
Miscellaneous	84,572	84,572	0
<i>Total Revenues</i>	<u>2,747,925</u>	<u>2,747,925</u>	<u>0</u>
Expenditures			
Current:			
Instruction:			
Special	960,064	850,723	109,341
Adult/Continuing	2,054	2,054	0
Support Services:			
Pupils	759,551	659,052	100,499
Instructional Staff	1,025,123	822,852	202,271
Board of Education	29,020	17,237	11,783
Administration	211,678	171,330	40,348
Fiscal	97,866	85,368	12,498
Business	18,000	7,535	10,465
Operation and Maintenance of Plant	7,600	6,211	1,389
Central	24,000	11,535	12,465
Operation of Non-Instructional Services	8,913	5,319	3,594
<i>Total Expenditures</i>	<u>3,143,869</u>	<u>2,639,216</u>	<u>504,653</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(395,944)</u>	<u>108,709</u>	<u>504,653</u>
Other Financing Sources (Uses)			
Advances In	5,000	5,000	0
Advances Out	(5,000)	(5,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(395,944)</u>	<u>108,709</u>	<u>504,653</u>
<i>Fund Balances Beginning of Year</i>	375,575	375,575	0
<i>Prior Year Encumbrances Appropriated</i>	<u>20,369</u>	<u>20,369</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u><u>\$0</u></u>	<u><u>\$504,653</u></u>	<u><u>\$504,653</u></u>

See accompanying notes to the general purpose financial statements.

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$356,280	\$345,730	(\$10,550)	\$2,430,804	\$2,420,254	(\$10,550)
0	0	0	516,029	516,029	0
0	0	0	26,974	26,974	0
0	0	0	28,500	28,500	0
0	0	0	17,198	17,198	0
0	0	0	128	128	0
0	0	0	84,572	84,572	0
<u>356,280</u>	<u>345,730</u>	<u>(10,550)</u>	<u>3,104,205</u>	<u>3,093,655</u>	<u>(10,550)</u>
52,528	46,423	6,105	1,012,592	897,146	115,446
14,859	14,084	775	16,913	16,138	775
139,128	138,257	871	898,679	797,309	101,370
92,851	50,375	42,476	1,117,974	873,227	244,747
0	0	0	29,020	17,237	11,783
8,069	7,752	317	219,747	179,082	40,665
5,143	5,143	0	103,009	90,511	12,498
0	0	0	18,000	7,535	10,465
1,000	1,000	0	8,600	7,211	1,389
77,900	77,900	0	101,900	89,435	12,465
0	0	0	8,913	5,319	3,594
<u>391,478</u>	<u>340,934</u>	<u>50,544</u>	<u>3,535,347</u>	<u>2,980,150</u>	<u>555,197</u>
<u>(35,198)</u>	<u>4,796</u>	<u>39,994</u>	<u>(431,142)</u>	<u>113,505</u>	<u>544,647</u>
5,000	5,000	0	10,000	10,000	0
<u>(5,000)</u>	<u>(5,000)</u>	<u>0</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(35,198)	4,796	39,994	(431,142)	113,505	544,647
41,590	41,590	0	417,165	417,165	0
<u>4,157</u>	<u>4,157</u>	<u>0</u>	<u>24,526</u>	<u>24,526</u>	<u>0</u>
<u>\$10,549</u>	<u>\$50,543</u>	<u>\$39,994</u>	<u>\$10,549</u>	<u>\$555,196</u>	<u>\$544,647</u>

Geauga County Educational Service Center

Geauga County

Statement of Changes in Net Assets

Fiduciary Fund Type

For the Fiscal Year Ended June 30, 1999

	<u>External Investment Trust</u>
Revenues	
Interest	\$24,425
Expenses	
Operating Expenses	<u>0</u>
<i>Net Increase in Assets Resulting from Operations</i>	24,425
Distribution to Participants	(24,425)
Capital Transactions	<u>49,938</u>
<i>Total Increase in Net Assets</i>	49,938
<i>Net Assets Beginning of Year</i>	<u>493,923</u>
<i>Net Assets End of Year</i>	<u><u>\$543,861</u></u>

See accompanying notes to the general purpose financial statements.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

Note 1 - Description of the Educational Service Center

On July 1, 1914, the Geauga County Educational Service Center was formed. The Educational Service Center supplies supervisory, administrative, and other needed services to local school districts.

The Educational Service Center operates under a locally-elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's instructional support services staffed by 36 noncertificated, 20 certificated teaching personnel, and 22 administrators who provide services to 13,053 students.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds that are not legally separate for the Educational Service Center. For the Educational Service Center, this is providing necessary services to local school districts.

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

The Educational Service Center is associated with certain organizations which are defined as a Jointly Governed Organization and an Insurance Purchasing Pool. These organizations are presented in Note 8 to the general purpose financial statements. These organizations include the Lake-Geauga Computer Consortium and the Ohio School Boards Association Workers' Compensation Group Rating Plan.

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources.

A. Basis of Presentation - Fund Accounting

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation - Fund Accounting (Continued)

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

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

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

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

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

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

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

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

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Measurement Focus and Basis of Accounting

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

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

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

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, grants, and excess costs.

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

The investment trust fund reports transactions and balances using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of these funds are included on the balance sheet.

C. Budgetary Data

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

Estimated Revenues:

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Budgetary Data (Continued)

Appropriations:

The annual appropriation resolution must be legally enacted by the Educational Service Center's Board at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Educational Service Center's Board. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the budget approved by the State Board of Education. During the year, several budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Encumbrances:

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

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

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

During fiscal year 1999, investments were limited to STAR Ohio, the State Treasurer's Investment Pool. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 1999.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

D. Cash and Cash Equivalents (Continued)

Under existing Ohio statutes, the Board of Education may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 1999, the general fund received interest earned in the amount of \$28,500.

E. Inventory

Inventories are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available spendable resources even though it is a component of net current assets. There was no significant inventory balance at June 30, 1999.

F. Fixed Assets and Depreciation

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

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

G. Intergovernmental Revenues

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

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

Entitlements

General Fund
State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds
Adult Basic Literacy
Economic Education
Eisenhower
At Risk Preschool
Drug Free Schools

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Intergovernmental Revenues (Continued)

Non-Reimbursable Grants

- Educational Management Information System
- Public Preschool
- Early Education
- Computer Network
- Teen Institute

Grants and entitlements amounted to 78 percent of the Educational Service Center's operating revenue during the 1999 fiscal year.

H. Pass-Through Grants

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

I. Interfund Assets and Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to the other funds" on the combined balance sheet. Short-term interfund loans are classified as "interfund receivable/payables."

J. Compensated Absences

The Educational Service Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

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 is accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

In general, payments made more than sixty days after year end are considered not to have been made with current available financial resources. Capital leases are reported as a liability of the general long-term obligations account group until due.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditure/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Fund Balance Reserves

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

N. Estimates

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

O. Memorandum Only - Total Columns

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 3 - Budgetary Basis of Accounting

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

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

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

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

	<i>General</i>	<i>Special Revenue</i>
<i>GAAP Basis</i>	\$47,586	\$6,685
Net Adjustment for Revenue Accruals	7,612	1,525
Advances In	5,000	5,000
Net Adjustment for Expenditure Accruals	68,147	(3,362)
Advances Out	(5,000)	(5,000)
Adjustment for Encumbrances	(14,636)	(52)
<i>Budget Basis</i>	\$108,709	\$4,796

Note 4 - Deposits and Investments

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

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 4 - Deposits and Investments (Continued)

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily; and that the term of the agreement does not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 4 - Deposits and Investments (Continued)

Deposits:

At year-end, the carrying amount of the Educational Service Center's deposits was \$7,725 and the bank balance was \$124,843. \$100,000 was covered by federal depository insurance and \$24,843 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments:

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements", requires the Educational Service Center to categorize investments to give an indication of the level of risk assumed by the Educational Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center invests in STAR Ohio which is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form. The carrying and market value of the STAR Ohio investment at June 30, 1999 was \$1,139,857.

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

	<i>Cash and Cash Equivalents/Deposits</i>	<i>Investments</i>
<i>GASB Statement No. 9</i>	\$1,147,582	\$0
Investments:		
STAR Ohio	(1,139,857)	1,139,857
<i>GASB Statement No. 3</i>	\$7,725	\$1,139,857

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 5 - Receivables (Continued)

	<i>Amounts</i>
<i>General Fund:</i>	
Excess Cost Reimbursement	\$84,563
<i>Adult Basic Education Special Revenue Fund</i>	
	8,475
<i>Computer Agency Fund</i>	
	7,860
<i>Total Intergovernmental Receivables</i>	\$100,898

Note 6 - External Investment Pool

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

*Statement of Net Assets
June 30, 1999*

Assets

Equity in Pooled Cash and Cash Equivalents	\$1,147,582
<i>Total Assets</i>	\$1,147,582

Net Asset Held in Trust for Pool Participants

Internal Portion	\$569,883
External Portion	577,699
<i>Total Net Assets Held in Trust for Pool Participants</i>	\$1,147,582

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

Revenues

Interest	\$52,926
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Expenses

Operating Expenses	0
<i>Net Increase in Assets Resulting from Operations</i>	52,926
Distribution to Participants	(52,926)
Capital Transactions	211,968
<i>Total Increase in Net Assets</i>	211,968
<i>Net Assets Beginning of Year</i>	935,614
<i>Net Assets End of Year</i>	1,147,582

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 7 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. All other lawful expenditures are funded by both State and local funds. The Educational Service Center receives \$34.00 for all other lawful expenditures and it is comprised of the following: six dollars and fifty cents times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, twenty-seven dollars and fifty cents times the sum of the ADM is paid by the State Board of Education from State funds.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of \$34.00 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Note 8 - Jointly Governed Organization and Insurance Purchasing Pool

The Lake-Geauga Education Computer Consortium is a jointly governed organization consisting of 18 school districts in Lake, Geauga and Cuyahoga County. 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 at general assembly meetings. The Educational Service Center is the fiscal agent as well as a voting 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. To obtain financial information, write to the Lake-Geauga Education Computer Consortium, 8140 Auburn Road, Painesville, Ohio, 44077.

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Grating Program (the Plan), an insurance purchasing pool. The Plan's business affairs are conducted by a three member Board of directors consisting of the president, the president-Elect and the Immediate Past president of the OSBA. The Plan is intended to reduce premiums for the participants. 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 Plan. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan.

Note 9 - Fixed Assets

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

	<i>Balance June 30, 1998</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance June 30, 1999</i>
Furniture and Fixtures	\$171,122	\$13,003	\$0	\$184,125
<i>Total</i>	<u>\$171,122</u>	<u>\$13,003</u>	<u>\$0</u>	<u>\$184,125</u>

There was no significant construction in progress at June 30, 1999.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 10- Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 1999, the Educational Service Center was insured under the county wide contract held by the Geauga County Commissioners.

Settled claims have not exceeded this commercial coverage in any of the past three years.

Professional liability is protected by the Nationwide Insurance Company with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Vehicles are covered by Nationwide Insurance Company and hold a \$100 deductible for comprehensive and a \$500 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability.

Note 11 - Defined Benefit Pension Plan

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, annual cost-of-living adjustments and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 1999, 7.7 percent was the portion to fund pension obligations. The contribution rates of plan members and employees are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The Educational Service Center's contributions to SERS for the years ending June 30, 1999, 1998 and 1997 were \$83,589, \$62,703 and \$52,606 respectively, equal to the required contributions for each year. 100 percent was paid for fiscal years 1998 and 1997. \$5,963 representing the unpaid contribution for fiscal year 1999, is recorded as a liability in the general long-term obligation account group.

B. State Teachers Retirement System

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 11 - Defined Benefit Pension Plan(Continued)

B. State Teachers Retirement System (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1999, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contributions to STRS for the years ending June 30, 1999, 1998, and 1997 were \$165,345, \$184,655, and \$167,068, respectively, equal to the required contributions for each year. 100 percent was paid for fiscal years 1999, 1998 and 1997.

C. Social Security System

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

Note 12 - Post Employment Benefits

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fee, 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.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to eight percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the Educational Service Center, this amount equaled \$55,076 during the 1999 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance of 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 benefits 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.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 12 - Post Employment Benefits (Continued)

For this fiscal year, employer contributions to fund health care benefits were 6.3 of covered payroll, an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. The surcharge rate added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. For fiscal year 1999, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$41,909, during the 1999 fiscal year.

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

Note 13 - Employee Benefits

A. *Compensated Absences*

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to two hundred twenty days.

Upon retirement, employees with less than eleven years of service are eligible to receive payment for one-fourth of their total sick leave accumulation up to thirty days. Employees with eleven to fourteen years of service are eligible to receive payment for one-fourth of their total sick leave accumulation up to fifty-three days. Employees with over fifteen years of service are eligible to receive payment for one-fourth of their total sick leave accumulation up to fifty-five days.

B. *Life Insurance*

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Life Insurance Trust, coverage amount is \$40,000 per employee.

Note 14 - Capital Leases

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

General fixed assets acquired by lease have been capitalized in the general fixed assets account group in an amount equal to the present value of the future minimum lease payments at the time of acquisition in the amount of \$24,075. A corresponding liability was recorded in the general long-term obligations account group.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 14 - Capital Leases (Continued)

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

<i>Fiscal Year Ending June 30, 1999</i>	<i>General Long-Term Obligations</i>
2000	\$3,757
<i>Total Minimum Lease Payments</i>	3,757
<i>Less: Amount Representing Interest</i>	(532)
<i>Present Value of Net Minimum Lease Payments</i>	\$3,225

Note 15 - Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 1999, were as follows:

	<i>Principal Outstanding June 30, 1998</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding June 30, 1999</i>
<i>Capital Leases:</i>				
Toshiba 3220	\$462	\$0	\$462	\$0
Toshiba 8050	7,116	0	3,891	3,225
<i>Total Capital Leases</i>	7,578	0	4,353	3,225
<i>Intergovernmental Payable</i>	6,963	5,963	6,963	5,963
<i>Compensated Absences</i>	237,503	0	14,902	222,601
<i>Total Long-Term Obligations</i>	\$252,044	\$5,963	\$26,218	\$231,789

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

Note 16 - Interfund Transactions

Interfund balances at June 30, 1999, consist of a receivable of \$5,000 for the general fund and a payable of \$5,000 for the adult basic education special revenue fund.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Note 17 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 1999.

B. Litigation

The Educational Service Center is not a part of or involved in any legal proceedings at this time.

Note 18 - School Funding Issue

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$2,054,524 of school foundation support for its general fund. As of the date of these financial statements, the District is unable to determine what effect, if any, this decision will have on its future state funding under this Program.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio 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.

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

Board of Education
Geauga County Educational Service Center
Geauga County
470 Center Street, Building 2
Chardon, Ohio 44024

We have audited the financial statements of the Geauga County Educational Service Center, Geauga County, Ohio, (the Service Center) as of and for the years ended June 30, 2000 and June 30, 1999, and have issued our report thereon dated October 31, 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 Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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 Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Jim Petro
Auditor of State

October 31, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

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GEAUGA EDUCATIONAL SERVICE CENTER

GEAUGA 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
DECEMBER 19, 2000**