

**MAHONING COUNTY
EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

***GENERAL PURPOSE FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001***

CINDY LENGYEL, TREASURER



STATE OF OHIO
OFFICE OF THE AUDITOR

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Governing Board
Mahoning County Educational Service Center
100 Debartolo Place, Suite 105
Youngstown, Ohio 44512

We have reviewed the Independent Auditor's Report of the Mahoning County Educational Service Center, Mahoning County, prepared by Trimble, Julian & Grube, Inc. for the audit period July 1, 2000 through June 30, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Mahoning County Educational Service Center is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

December 21, 2001

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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Independent Auditor's Report

Governing Board
Mahoning County Educational Service Center
100 Debartolo Place, Suite 105
Youngstown, OH 44512

We have audited the accompanying general purpose financial statements of the Mahoning County Educational Service Center (the "ESC"), Mahoning County, as of and for the fiscal year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the ESC's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

As disclosed in Note 3 to the general purpose financial statements, the ESC implemented Governmental Accounting Standards Board (GASB) Statement No. 33 Accounting and Financial Reporting for Nonexchange Transactions for the year ended June 30, 2001.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Mahoning County Educational Service Center, Mahoning County, as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2001, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Mahoning County Educational Service Center
Independent Auditor's Report
Page Two

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the ESC, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Trimble, Julian & Grube, Inc.
November 16, 2001

MAHONING EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	Governmental Fund Types			Fiduciary Fund Type	Account Groups			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Agency	General	Long-Term	Total	
					Fixed Assets	Obligations		
ASSETS AND OTHER DEBITS								
ASSETS:								
Equity in pooled cash and cash equivalents	\$2,435,188	\$819,465	\$81,597	\$1,830,188				\$5,166,438
Receivables (net of allowances of uncollectibles):								
Accounts	934							934
Due from other governments	1,508,850	10,549		85,000				1,604,399
Due from other funds				109,004				109,004
Interfund loan receivable	20,000							20,000
Materials and supplies inventory	15,976							15,976
Property, plant and equipment (net of accumulated depreciation where applicable)					\$969,281			969,281
OTHER DEBITS:								
Amount to be provided from general government resources						\$200,825		200,825
Total assets and other debits	\$3,980,948	\$830,014	\$81,597	\$2,024,192	\$969,281	\$200,825		\$8,086,857
LIABILITIES, EQUITY AND OTHER CREDITS								
LIABILITIES:								
Accounts payable	\$24,991	\$144,908		\$182,849				\$352,748
Accrued wages and benefits	591,854	156,623	\$321	63,780				812,578
Compensated absences payable	18,813	440		26,089		\$162,218		207,560
Due to other governments	100,239	11,510	131	688,275		38,607		838,762
Due to other funds	79,457	21,029		8,518				109,004
Interfund loan payable				20,000				20,000
Deferred revenue	1,464,228			1,034,681				1,464,228
Undistributed monies								1,034,681
Total liabilities	2,279,582	334,510	452	2,024,192		200,825		4,839,561
EQUITY AND OTHER CREDITS:								
Investment in general fixed assets					\$969,281			969,281
Fund balances:								
Reserved for encumbrances	89,904	373,336	1,852					465,092
Reserved for materials and supplies inventory	15,976							15,976
Unreserved-undesignated	1,595,486	122,168	79,293					1,796,947
Total equity and other credits	1,701,366	495,504	81,145		969,281			3,247,296
Total liabilities, equity and other credits	\$3,980,948	\$830,014	\$81,597	\$2,024,192	\$969,281	\$200,825		\$8,086,857

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

MAHONING EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
Revenues:				
From local sources:				
Tuition	\$3,010,241			\$3,010,241
Earnings on investments	369,614			369,614
Customer services	453,068			453,068
Gifts and donations	3,650			3,650
Other local revenues	1,390	\$7,883		9,273
Other revenue		176,445		176,445
Intergovernmental - State	2,526,297	3,544,102	\$75,200	6,145,599
Intergovernmental - Federal	181,135	697,319		878,454
Total revenues	6,545,395	4,425,749	75,200	11,046,344
Expenditures:				
Current:				
Instruction:				
Regular	587,943	184,763		772,706
Special	1,910,987	488,969		2,399,956
Vocational	53,150			53,150
Support services:				
Pupil	1,664,471	1,045,831		2,710,302
Instructional staff	1,390,126	1,668,036	138,071	3,196,233
Board of Education	23,054			23,054
Administration	90,738	266,263		357,001
Fiscal	205,614	29,875		235,489
Business	153,131	13,161		166,292
Operations and maintenance	32,537	162,888		195,425
Pupil transportation		556,913		556,913
Central	114,995	33,305		148,300
Community services		125,068		125,068
Total expenditures	6,226,746	4,575,072	138,071	10,939,889
Excess of revenues over (under) expenditures	318,649	(149,323)	(62,871)	106,455
Other financing sources:				
Proceeds from sale of fixed assets	134			134
Total other financing sources	134			134
Excess of revenues and other financing sources over (under) expenditures	318,783	(149,323)	(62,871)	106,589
Fund balances, July 1 (restated)	1,380,873	644,827	144,016	2,169,716
Increase in reserve for inventory	1,710			1,710
Fund balances, June 30	\$1,701,366	\$495,504	\$81,145	\$2,278,015

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General			Special Revenue			Capital Projects			Total (Memorandum only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:												
From local sources:												
Tuition.....	\$3,163,619	\$3,009,844	(\$153,775)				\$3,163,619	\$3,009,844	(\$153,775)			
Earnings on investments.....	358,000	357,443	(557)				358,000	357,443	(557)			
Customer services.....	367,711	429,734	62,023				367,711	429,734	62,023			
Gifts and donations.....	4,000	3,650	(350)				4,000	3,650	(350)			
Other local revenues.....	1,250	1,390	140				9,133	9,273	140			
Other revenue.....				\$7,883	\$7,883	\$0						
Intergovernmental - State.....	2,434,249	2,526,297	92,048	168,563	176,445	7,882	168,563	176,445	7,882			
Intergovernmental - Federal.....	164,400	182,636	18,236	3,526,344	3,544,102	17,758	17,758	17,758	0			
Total revenues.....	6,493,229	6,510,994	17,765	4,314,932	4,432,143	117,211	75,200	75,200	0	10,883,361	11,018,337	134,976
Expenditures:												
Current:												
Instruction:												
Regular.....	606,798	551,778	55,020	235,681	235,176	505				842,479	786,954	55,525
Special.....	1,979,151	1,915,199	63,952	679,672	678,342	1,330				2,658,823	2,593,541	65,282
Other.....	66,115	57,951	8,164							66,115	57,951	8,164
Support services:												
Pupil.....	1,718,494	1,645,382	73,112	1,161,873	1,157,446	4,427				2,880,367	2,802,828	77,539
Instructional staff.....	1,628,699	1,523,971	104,728	1,851,187	1,769,081	82,106				3,827,292	3,572,713	254,579
Board of Education.....	28,608	24,434	4,174							28,608	24,434	4,174
Administration.....	123,922	93,336	30,586	312,578	292,624	19,954	12,000	0	12,000	448,500	385,960	62,540
Fiscal.....	278,376	210,493	67,883	41,193	31,602	9,591				319,569	242,095	77,474
Business.....	186,566	174,519	12,047	32,306	32,306	0				218,872	206,825	12,047
Operations and maintenance.....	40,329	34,930	5,399	170,383	170,734	(351)				210,712	205,664	5,048
Pupil transportation.....	133,451	122,600	10,851	553,600	557,112	(3,512)				553,600	557,112	(3,512)
Central.....				37,167	35,519	1,648				170,618	158,119	12,499
Community services.....				156,747	131,800	24,947				156,747	131,800	24,947
Total expenditures.....	6,790,509	6,354,593	435,916	5,232,387	5,091,742	140,645	359,406	279,661	79,745	12,382,302	11,725,996	656,306
Excess of revenues over (under) expenditures.....	(297,280)	156,401	453,681	(917,455)	(659,599)	257,856	(284,206)	(204,461)	79,745	(1,498,941)	(707,659)	791,282
Other financing sources (uses):												
Proceeds from sale of fixed assets.....	0	134	134							0	134	134
Advances in.....	0	3,000	3,000							0	3,000	3,000
Advances out.....	(23,000)	(23,000)	0							(23,000)	(23,000)	0
Refund of prior years receipts.....	0	73,926	73,926	0	(2,809)	(2,809)				0	(2,809)	(2,809)
Refund of prior years expenditures.....	(23,000)	54,060	77,060	6,325	0	(6,325)				6,325	73,926	67,601
Total other financing sources (uses).....										(16,675)	51,251	67,926
Excess of revenues and other financing sources over (under) expenditures and other financing (uses):	(320,280)	210,461	530,741	(911,130)	(662,408)	248,722	(284,206)	(204,461)	79,745	(1,515,616)	(656,408)	859,208
Fund balances, July 1.....	2,017,123	2,017,123	0	341,467	341,467	0	56,843	56,843	0	2,415,433	2,415,433	0
Prior year encumbrances appropriated.....	89,528	89,528	0	621,245	621,245	0	227,363	227,363	0	938,136	938,136	0
Fund balances, June 30.....	\$1,786,371	\$2,317,112	\$530,741	\$51,582	\$300,304	\$248,722	\$0	\$79,745	\$79,745	\$1,837,953	\$2,697,161	\$859,208

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

On July 18, 1914, the Mahoning County Governing Board was formed. In 1996 the Governing Board, as required by state law, underwent a name change to the Mahoning County Educational Service Center (the "ESC"). The ESC provides administrative, curricular, instructional, pupil personnel, and professional staff development services to local school districts. Direct instructional programs are provided to preschool students and their families.

The ESC operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by state and federal agencies. The Governing Board oversees the ESC's operation and its staff of 108 certificated and 59 non-certificated personnel. Staff members support the educational efforts of 11 local school districts and their 23,500 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. 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 ESC are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the ESC. For the ESC, this is providing necessary services to local school districts.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. The ESC has no component units. The ESC has entered into a contractual agreement with the Family and Children First Council (the "Council") of Mahoning County to serve as fiscal agent. The financial activity of the Council has been reported as an Agency Fund in the ESC's general purpose financial statements.

The following organizations are described due to their relationship with the ESC.

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Educational Service System (ACCESS)

The Area Cooperative Computerized Educational Service System is a jointly governed organization among 27 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The nine-member board of directors consists of three treasurers and six superintendents from participating school districts. The degree of control exercised by any participating school district is limited to its representation on the board. Mahoning County Educational Service Center is the fiscal agent for the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Northeast Ohio Special Education Regional Resource Center (NEOSERRC)

NEOSERRC is a special education service center, which selects its own board, adopts its own budget, and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. NEOSERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the board. The ESC serves as fiscal agent for NEOSERRC, which is accounted for in an agency fund.

RELATED ORGANIZATION

Mahoning County Career and Technical Center

The Mahoning County Career and Technical Center is a joint vocational school district as defined by Section 3311.18 of the Ohio Revised Code. The five members of the Governing Board of the ESC are also members of the Governing Board of the Mahoning County Career and Technical Center, which includes two other members. The Governing Board of the ESC cannot directly impose their will on the Mahoning County Career and Technical Center.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past-President of OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating members pay an enrollment fee to the GRP to cover the cost of administering the program.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Mahoning County Insurance Consortium

The Mahoning County Insurance Consortium is a shared risk pool comprised of 13 Mahoning County school districts. The consortium is governed by an assembly, which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

B. Basis Of Presentation - Fund Accounting

The ESC 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 ESC functions or activities.

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

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

GOVERNMENTAL FUND TYPES

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

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

General Fund - The general fund is the operating fund of the ESC 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 ESC 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 (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

FIDUCIARY FUND TYPES

Fiduciary funds are used to account for assets held by the ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The ESC has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

ACCOUNT GROUPS

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

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

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

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

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

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

The modified accrual basis of accounting is followed for the governmental and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the ESC is 60 days after year-end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue source is deemed both measurable and available: charges for services.

The ESC reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

D. 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 ESC prepares a budget of operating expenses for the ensuing year for all funds on forms prepared and furnished by the State Board of Education and certifies the budget to the State Board of Education, together with such other information as the State Board of Education may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employers retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the ESC. The State Board of Education reviews the budget. Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Appropriations - The annual appropriation resolution must be legally enacted by the Governing Board at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Governing Board may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. The Appropriation resolution, by fund, must be within the estimated resources as submitted to the State 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 must be approved by the Governing Board. The Treasurer has elected to present budgetary statement comparisons at the fund and function level of expenditures. The Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Board of Education. During the year, several appropriation amendments were legally enacted. The budget figures, which appear in the combined statement of budgetary comparisons represent the final appropriation amounts, including any supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

E. Cash and Cash Equivalents

To improve cash management, cash received by the ESC is pooled. Monies for all funds are maintained in this pool. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2001, investments were limited to repurchase agreements, Federal National Mortgage Association securities, Federal Home Loan Bank Notes and STAR Ohio.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2001.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$369,614, which includes \$203,709 assigned from other ESC funds.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Materials and Supplies Inventory

Materials and supplies 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.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost). Donated fixed assets are recorded at their fair market value as of the date received. The ESC maintains a capitalization threshold of \$300. The ESC 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. Interest incurred during the construction of general fixed assets is also not capitalized.

H. Intergovernmental Revenues

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The ESC currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Head Start Disability
Eisenhower Professional Development Block Grant
Entry Year
Safe and Drug-Free Schools
Educational Management Information System
Special Education - Preschool
Ohio Reads
Alternative Programs
Early Start
Goals 2000
Continuous Improvement Grant
Community Alternative Funding Program (CAFS)
SchoolNet Professional Development
Even Start
Title VI-B

Capital Projects Fund

SchoolNet
Telecommunity Fund

Reimbursable Grants

Special Revenue Fund

Child Care Food Program

Grants and entitlements amounted to 64 percent of the ESC's operating revenue during the 2001 fiscal year.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Pass-Through Grants

The ESC is the primary recipient of grants, which are passed-through to or spent on behalf of the local school districts within the County. When the ESC 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 ESC has no financial or administrative role and are passed-through to the local school districts in the county are reported in an agency fund.

J. Interfund Transactions

During the course of normal operations, the ESC has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The ESC had short-term interfund loans receivable and payable at June 30, 2001.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The ESC had no long-term advances receivable and payable at June 30, 2001.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

5. Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet.

An analysis of interfund transactions is presented in Note 5.

K. Compensated Absences

The ESC 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 ESC will compensate the employees for the benefits through paid time off or some other means. The ESC records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. The liability is an estimate of the ESC's past experience of making termination payments. An accrual for earned sick leave is made to the extent it is probable that benefits will result in 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 have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

L. 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 60 days after year-end are considered not to have been made with current available financial resources.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Fund Balance Reserves

The ESC 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 and materials and supplies inventory.

N. Estimates

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

O. Total Columns on the General Purpose Financial Statements

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", was implemented during fiscal 2001. This statement pertains to the financial reporting of certain types of revenue received by the ESC for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions. The adoption of this statement had an effect on fund balances as previously reported by the ESC at June 30, 2000. See Note 3.B. for details.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Prior Period Adjustments

Two prior period adjustments are required to properly state the pension liability at June 30, 2000, in the general fund and special revenue funds and to restate the special revenue fund balance at June 30, 2000, for the implementation of GASB Statement No. 33. The effect of these prior period adjustments on fund balances, as previously reported at June 30, 2000, is as follows:

	<u>General</u>	<u>Special Revenue</u>
Fund balances as previously reported	\$1,412,778	\$689,617
Pension liability adjustment	(31,905)	(61,732)
GASB Statement No. 33 implementation	---	16,942
Restated fund balances as of July 1, 2000	<u>\$1,380,873</u>	<u>\$644,827</u>

C. Deficit Fund Balance

Special Revenue fund, Title I, had a fund deficit of \$8,317 at June 30, 2001. This fund complied with Ohio state law, which does not allow a cash deficit at year-end. The deficit fund balance is a result of accruing wage obligations in accordance with accounting principles generally accepted in the United States of America. This deficit will be eliminated by intergovernmental revenues and other subsidies not recognized at June 30.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

State statutes require the classification of monies held by the ESC into three categories:

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

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

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

Protection of the ESC's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as a security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-loan money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligation, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits: At year-end, the carrying amount of the ESC's deposits was \$(1,242,617) and the bank balance was \$62,190. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the ESC's bank accounts. The entire bank balance was covered by federal depository insurance.

Investments: GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires the ESC to categorize investments to give an indication of the level of risk assumed by the ESC at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the ESC or its agent in the ESC's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the ESC'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 ESC's name. The ESC 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.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

	Category 2	Carrying Amount	Fair Value
Repurchase Agreement	\$ 121,000	\$ 121,000	\$ 121,000
Federal Home Loan Bank Notes	501,250	501,250	501,250
Federal National Mortgage Association Notes	851,438	851,438	851,438
STAR Ohio	---	4,935,367	4,935,367
 Total Investments	 \$1,473,688	 \$6,409,055	 \$6,409,055

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:

	Equity in Pooled Cash and Cash Equivalents	Investments
GASB Statement 9	\$ 5,166,438	\$ 0
Investments which are part of a cash management pool:		
Repurchase Agreement	(121,000)	121,000
Federal Home Loan Bank Notes	(501,250)	501,250
Federal National Mortgage Association Notes	(851,438)	851,438
STAR Ohio	(4,935,367)	4,935,367
GASB Statement 3	\$(1,242,617)	\$6,409,055

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2001, consist of the following individual interfund loans receivable and payable:

	Interfund Receivable	Interfund Payable
<u>General Fund</u>	\$20,000	\$ ---
<u>Agency Fund</u>		
District Agency	---	20,000
Totals	\$20,000	\$20,000

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

B. The following is a summarized breakdown of amounts “due to” and “due from” other funds for pension obligation payments:

	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
<u>General Fund</u>	\$ 79,457	\$ ---
<u>Special Revenue Funds</u>		
Head Start	15,480	---
Public School Preschool	2,169	---
Alternative Education Challenge	1,961	---
Early Start	732	---
Even Start	687	---
<u>Agency Funds</u>		
Family and Children First	229	---
Computer Network	2,230	---
Praxis	2,827	---
Title VI-B	3,232	---
District Agency	<u>---</u>	<u>109,004</u>
Totals	<u>\$109,004</u>	<u>\$109,004</u>

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 6 - RECEIVABLES

Receivables at June 30, 2001, consisted primarily of excess costs, intergovernmental grants, and customer services. All receivables are considered collectible in full. A summary of the principle items of intergovernmental receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Excess Costs	\$1,464,228
Customer Services	30,135
CAFS	11,442
Other	3,045
Total General	1,508,850
 <u>Special Revenue Fund</u>	
Entry Year	10,549
Total Special Revenue	10,549
 <u>Agency Fund</u>	
Title VI-B	85,000
Total Agency	85,000
 Grand Total	 \$1,604,399

NOTE 7 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 7 - STATE FUNDING - (Continued)

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

NOTE 8 - FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2001 follows:

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2001</u>
Furniture and Equipment	\$599,810	\$348,213	\$(8,463)	\$939,560
Vehicles	<u>29,721</u>	<u>---</u>	<u>---</u>	<u>29,721</u>
Total	<u>\$629,531</u>	<u>\$348,213</u>	<u>\$(8,463)</u>	<u>\$969,281</u>

There was no construction in progress at June 30, 2001.

NOTE 9 - LONG TERM OBLIGATIONS

Changes in long-term obligations of the ESC from June 30, 2000, to June 30, 2001, were as follows:

	<u>Principal Outstanding July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding June 30, 2001</u>
General Long-Term Obligations:				
Compensated Absences	\$154,785	\$46,629	\$(39,196)	\$162,218
Pension Obligation	<u>37,705</u>	<u>38,607</u>	<u>(37,705)</u>	<u>38,607</u>
Total	<u>\$192,490</u>	<u>\$85,236</u>	<u>\$(76,901)</u>	<u>\$200,825</u>

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 9 - LONG TERM OBLIGATIONS - (Continued)

Compensated absences will be paid from the fund from which the person is paid. The intergovernmental payable represents contractually required pension obligations paid outside the available period and will be paid from the fund from the District Agency Fund. Governmental funds from which the person is paid are charged monthly for pension expenditures. Monies charged to the various governmental funds are deposited into the District Agency Fund which in turn makes the annual payments to the retirement systems.

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The ESC 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 2001, the ESC contracted with Cincinnati Insurance Company for property and general liability insurance.

Professional liability is provided by the Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$2,000,000 single occurrence limit and no deductible. Vehicles are covered by Nationwide Insurance Company and hold a \$50 deductible for comprehensive and a \$250 deductible for collision. Automobile liability has a \$500,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 10 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

For fiscal year 2001, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual performance rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP.

Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

The ESC has contracted with the Mahoning County Insurance Consortium to provide employee medical/surgical, dental and prescription drug benefits. The ESC contributes \$325 toward medical/surgical premiums of \$489.54 for family coverage and pays \$199.65 for single coverage. Monthly premiums for prescription drug insurance are \$81.04 for single coverage and \$180.62 for family coverage, of which the ESC contributes \$65. Premiums for dental coverage are \$53.67 monthly on a composite basis and the ESC contributes \$53.67.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 11 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

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

Plan members are required to contribute 9% of their annual covered salary and the ESC is required to contribute 14% for 2001; 4.2% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$144,438, \$178,331, and \$132,791, respectively; 100% has been contributed for fiscal years 2001, 2000 and 1999.

B. State Teachers Retirement System

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 11 - DEFINED BENEFIT PENSION PLAN - (Continued)

Plan members are required to contribute 9.3% of their annual covered salary and the ESC is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The ESC's required contributions to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$403,705, \$231,249, and \$284,687, respectively; 100% has been contributed for fiscal years 2000 and 1999; fiscal year 2001 contributions of \$403,705 were paid in full in August 2001. The unpaid portion is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose social security or SERS/STRS. As of June 30, 2001, one Governing Board member has elected social security. The board's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$191,229 during fiscal 2001.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 (the latest information available), net health care costs paid by STRS were \$283.137 million and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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% of the premium.

For this fiscal year, employer contributions to fund health care benefits were 9.8% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2000, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000 (the latest information available), SERS had net assets available for payment of health care benefits of \$252.3 million and SERS had approximately 50,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$374,727 during the 2001 fiscal year.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from the negotiated agreement and State laws. Classified employees earn 10 to 20 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 certificated personnel employed for less than 260 days 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 245 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 51 days.

B. Medical and Life Insurance

The ESC provides life insurance and accidental death and dismemberment insurance to most employees through National Term Life Insurance Company, in the amount of \$25,000.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

**Excess of Revenues and Other Financing Sources
Over/(Under) Expenditures and Other Financing Uses**

	All Governmental Fund Types		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Budget basis	\$210,461	\$(662,408)	\$(204,461)
Net adjustment for revenue accruals	34,401	(6,394)	---
Net adjustment for expenditure accruals	12,536	(2,491)	139,738
Net adjustment for other financing sources (uses)	(53,926)	2,809	---
Encumbrances (budget basis)	<u>115,311</u>	<u>519,161</u>	<u>1,852</u>
GAAP basis	<u>\$318,783</u>	<u>\$(149,323)</u>	<u>\$(62,871)</u>

NOTE 15 - CONTINGENCIES

A. Grants

The ESC 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 ESC at June 30, 2001.

B. Litigation

The ESC is party to legal proceedings. The ESC's management is of the opinion that the ultimate outcome of such litigation will not result in a material adverse effect on the ESC's financial position.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 15 - CONTINGENCIES - (Continued)

C. State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 16, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon reconsideration.

As of the date of these financial statements, the ESC is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

SUPPLEMENTAL DATA

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U. S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
Child Care Food Program	10.558	N/A	\$555	\$555
Total U.S. Department of Agriculture			<u>555</u>	<u>555</u>
U. S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
Special Education Grant Cluster:				
(A) Title VI-B - Education of the Handicapped Act	84.027	48280-6B-SI-99P	95,837	213,555
(A) Title VI-B - Education of the Handicapped Act	84.027	48280-6B-SI-00P	1,012,558	849,682
(A) (C) Title VI-B - Education of the Handicapped Act	84.027	N/A	6,550	6,550
(A) (C) Title VI-B - Education of the Handicapped Act	84.027	N/A	<u>0</u>	<u>500</u>
Total Title VI - B			<u>1,114,945</u>	<u>1,070,287</u>
(A) Special Education-Preschool	84.173	48280-PG-S1-00P	96,669	96,669
(A) Special Education-Preschool	84.173	48280-PG-S1-01	11,250	11,185
(A) Special Education-Preschool	84.173	48280-PG-SC-00C	<u>4,022</u>	<u>4,022</u>
Total Special Education Preschool Grant			<u>111,941</u>	<u>111,876</u>
Total Special Education Grant Cluster			<u>1,226,886</u>	<u>1,182,163</u>
Safe and Drug - Free Schools	84.186	48280-DR-S2-00	73,121	52,000
Safe and Drug - Free Schools	84.186	48280-DR-S2-01	<u>21,252</u>	<u>0</u>
Total Safe and Drug - Free Schools			<u>94,373</u>	<u>52,000</u>
Even Start Grant	84.213	48280-EV-S2-00	16,942	44,479
Even Start Grant	84.213	48280-EV-S2-01	<u>133,424</u>	<u>109,711</u>
Total Even Start			<u>150,366</u>	<u>154,190</u>
Goals 2000	84.276	48280-SD-TA 00	30,000	0
Goals 2000	84.276	48280-G2-S3-00	20,000	31,350
Goals 2000	84.276	48280-G2-S3-01	99,475	82,598
Goals 2000	84.276	48280-G2-SP-01	<u>62,730</u>	<u>50,020</u>
Total Goals 2000			<u>212,205</u>	<u>163,968</u>
Eisenhower Professional Development Grant	84.281	48280-MS-S1-00	81,565	68,232
Eisenhower Professional Development Grant	84.281	48280-MS-S2-98C	0	2,278
Eisenhower Professional Development Grant	84.281	48280-MS-S1-99C	0	23,539
Eisenhower Professional Development Grant	84.281	48280-MS-S2-00	<u>52,731</u>	<u>48,758</u>
Total Eisenhower Professional Development Grant			<u>134,296</u>	<u>142,807</u>
Total U. S. Department of Education			<u>1,818,126</u>	<u>1,695,128</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES:				
Community Alternative Funding System Program	93.778	N/A	182,636	182,636
Total U. S. Department of Health and Human Services			<u>182,636</u>	<u>182,636</u>
Total Federal Financial Assistance			<u>\$2,001,317</u>	<u>\$1,878,319</u>

- (A) Included as part of "Special Education Grant Cluster" in determining major programs.
- (B) This schedule was prepared on the cash basis of accounting.
- (C) Passed through Central Ohio Special Education Regional Resource Center.

TRIMBLE, JULIAN & GRUBE, INC.

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Governing Board
Mahoning County Educational Service Center
100 Debartolo Place, Suite 105
Youngstown, OH 44512

We have audited the general purpose financial statements of Mahoning County Educational Service Center (the "ESC") as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated November 16, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Governing Board
Mahoning County Educational Service Center

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 general purpose 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.

During the fiscal year ended June 30, 2001, the ESC implemented Governmental Accounting Standards Board (GASB) Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions.

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

Trimble, Julian & Grube, Inc.
November 16, 2001

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Report on Compliance With Requirements Applicable to Its Major Federal Program and Internal Control Over Compliance in Accordance With *OMB Circular A-133*

Governing Board
Mahoning County Educational Service Center
100 Debartolo Place, Suite 105
Youngstown, OH 44512

Compliance

We have audited the compliance of Mahoning County Educational Service Center (the "ESC") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2001. The ESC's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the ESC's management. Our responsibility is to express an opinion on the ESC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the ESC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ESC's compliance with those requirements.

Governing Board
Mahoning County Educational Service Center

In our opinion, the ESC complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2001.

Internal Control Over Compliance

The management of the ESC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the ESC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

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

During the fiscal year ended June 30, 2001, the ESC implemented Governmental Accounting Standards Board (GASB) Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions.

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

Trimble, Julian & Grube, Inc.
November 16, 2001

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2001

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under § .510?</i>	No

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2001

1. SUMMARY OF AUDITOR'S RESULTS (Continued)

<i>(d)(1)(vii)</i>	<i>Major Program:</i>	Special Education Grant Cluster: Title VI-B - Education of the Handicapped Act, CFDA #84.027; and Special Education - Preschool, CFDA #84.173
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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OFFICE OF THE AUDITOR

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MAHONING COUNTY EDUCATIONAL SERVICE CENTER

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 3, 2002**