

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Governing Board
Educational Service Center of Lorain County

We have reviewed the Independent Auditor's Report of the Educational Service Center of Lorain County, Lorain County, prepared by Costin + Company 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 Educational Service Center of Lorain County is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

January 15, 2002

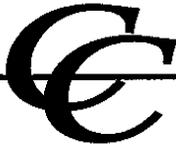
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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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COSTIN + COMPANY

Certified Public Accountants

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North Ridgeville, OH 44039

INDEPENDENT AUDITOR'S REPORT

To the Governing Board
Educational Service Center of Lorain County
Elyria, Ohio

We have audited the accompanying general purpose financial statements of the Educational Service Center of Lorain County, Ohio, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Educational Service Center of Lorain County, Ohio'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 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.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center of Lorain County, Ohio, as of June 30, 2001, and the results of its operations and the changes in net assets of its fiduciary fund type 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 December 12, 2001, on our consideration of the Educational Service Center of Lorain County, Ohio'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.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements 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 of the Educational Service Center of Lorain County, Ohio. 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.

December 12, 2001

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	Governmental Fund Types		Fiduciary
	General	Special Revenue	Fund Types Trust and Agency
<u>Assets and other debits</u>			
Pooled cash and cash equivalents	\$ 3,336,773	\$ 372,164	\$ 1,938,781
Cash and cash equivalents in segregated accounts	-	-	4,297,590
Receivables			
Accounts and other	-	384	-
Intergovernmental	372,541	78,631	94,786
Accrued interest	62,588	-	-
Interfund receivable	34,000	-	-
Fixed assets	-	-	-
Amount to be provided for benefits	-	-	-
Total assets and other debits	<u>\$ 3,805,902</u>	<u>\$ 451,179</u>	<u>\$ 6,331,157</u>
<u>Liabilities, fund equity and other credits</u>			
Liabilities			
Accounts and contracts payable	\$ 55,535	\$ 8,807	\$ 155,288
Accrued wages	364,541	28,390	-
Compensated absences payable	87,741	-	-
Interfund payable	-	-	34,000
Intergovernmental payable	415,851	38,191	-
Deferred revenue	-	14,187	-
Undistributed monies	-	-	4,532,793
Total liabilities	<u>923,668</u>	<u>89,575</u>	<u>4,722,081</u>
Fund equity and other credits			
Investment in general fixed assets	-	-	-
Net assets	-	-	1,609,076
Fund balances			
Reserved for encumbrances	626,095	76,689	-
Unreserved	2,256,139	284,915	-
Total fund equity and other credits	<u>2,882,234</u>	<u>361,604</u>	<u>1,609,076</u>
Total liabilities, fund equity and other credits	<u>\$ 3,805,902</u>	<u>\$ 451,179</u>	<u>\$ 6,331,157</u>

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

Account Groups			
General	General Long-		Totals
Fixed Assets	term Obligations		(Memorandum Only)
\$ -	\$ -	\$	5,647,718
-	-		4,297,590
-	-		384
-	-		545,958
-	-		62,588
-	-		34,000
738,436	-		738,436
-	433,677		433,677
<u>\$ 738,436</u>	<u>\$ 433,677</u>	<u>\$</u>	<u>11,760,351</u>
\$ -	\$ -	\$	219,630
-	-		392,931
-	422,809		510,550
-	-		34,000
-	10,868		464,910
-	-		14,187
-	-		4,532,793
<u>-</u>	<u>433,677</u>	<u>\$</u>	<u>6,169,001</u>
738,436	-		738,436
-	-		1,609,076
-	-		702,784
-	-		2,541,054
<u>738,436</u>	<u>-</u>	<u>\$</u>	<u>5,591,350</u>
<u>\$ 738,436</u>	<u>\$ 433,677</u>	<u>\$</u>	<u>11,760,351</u>

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

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Revenues			
Intergovernmental	\$ 2,414,874	\$ 917,217	\$ 3,332,091
Interest	300,889	-	300,889
Tuition and fees	1,956,240	5,892	1,962,132
Contributions and donations	-	41,959	41,959
Customer services	1,408,371	-	1,408,371
Miscellaneous	20,830	-	20,830
Total revenues	6,101,204	965,068	7,066,272
Expenditures			
Current			
Instruction			
Regular	342,914	298,008	640,922
Special	491,681	167,030	658,711
Supporting services			
Pupil	730,076	40,068	770,144
Instructional staff	2,433,737	485,339	2,919,076
Board of education	14,594	-	14,594
Administration	401,146	134,467	535,613
Fiscal	242,845	13,998	256,843
Business	320,862	-	320,862
Operation and maintenance of plant	147,510	938	148,448
Pupil transportation	-	705	705
Central	54,628	4,465	59,093
Operation of non-instructional services	1,644	166	1,810
Debt service			
Principal retirement	4,092	-	4,092
Interest and fiscal charges	199	-	199
Total expenditures	5,185,928	1,145,184	6,331,112
Excess (deficiency) of revenues over expenditures	915,276	(180,116)	735,160
Fund balances, beginning of year	1,966,958	541,720	2,508,678
Fund balances, end of year	\$ 2,882,234	\$ 361,604	\$ 3,243,838

The accompanying notes are an integral part of these financial statement.

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

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental	\$ 2,366,666	\$ 2,366,666	\$ -
Interest	239,954	240,239	285
Tuition and fees	1,704,183	1,704,183	-
Contributions and donations	-	-	-
Customer services	1,423,290	1,423,290	-
Miscellaneous	20,830	20,830	-
Total revenues	5,754,923	5,755,208	285
Expenditures			
Current			
Instruction			
Regular	384,619	384,619	-
Special	535,670	535,670	-
Supporting services			
Pupil	824,320	824,320	-
Instructional staff	2,727,548	2,727,548	-
Board of education	21,023	21,023	-
Administration	397,461	397,461	-
Fiscal	245,350	245,350	-
Business	341,515	341,515	-
Operation and maintenance of plant	189,729	189,729	-
Pupil transportation	-	-	-
Central	-	-	-
Operation of non-instructional services	2,214	2,214	-
Total expenditures	5,669,449	5,669,449	-
Excess (deficiency) of revenues over expenditures	85,474	85,759	285
Other financing sources (uses)			
Advances in	6,800	6,800	-
Advances out	(34,000)	(34,000)	-
Total other financing sources (uses)	(27,200)	(27,200)	-
Excess (deficiency) of revenues over expenditures and other sources (uses)	58,274	58,559	285
Prior year encumbrances	573,398	573,398	-
Fund balances, beginning of year	2,053,248	2,053,248	-
Fund balances, end of year	\$ 2,684,920	\$ 2,685,205	\$ 285

The accompanying notes are an integral part of these financial statement.

Special Revenue			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 866,223	\$ 866,223	\$ -	\$ 3,232,889	\$ 3,232,889	\$ -
-	-	-	239,954	240,239	285
5,508	5,508	-	1,709,691	1,709,691	-
34,460	34,460	-	34,460	34,460	-
-	-	-	1,423,290	1,423,290	-
-	-	-	20,830	20,830	-
<u>906,191</u>	<u>906,191</u>	<u>-</u>	<u>6,661,114</u>	<u>6,661,399</u>	<u>285</u>
310,594	310,594	-	695,213	695,213	-
197,536	197,536	-	733,206	733,206	-
40,244	40,244	-	864,564	864,564	-
489,227	489,227	-	3,216,775	3,216,775	-
-	-	-	21,023	21,023	-
156,028	156,028	-	553,489	553,489	-
14,075	14,075	-	259,425	259,425	-
-	-	-	341,515	341,515	-
3,180	3,180	-	192,909	192,909	-
705	705	-	705	705	-
4,922	4,922	-	4,922	4,922	-
165	165	-	2,379	2,379	-
<u>1,216,676</u>	<u>1,216,676</u>	<u>-</u>	<u>6,886,125</u>	<u>6,886,125</u>	<u>-</u>
<u>(310,485)</u>	<u>(310,485)</u>	<u>-</u>	<u>(225,011)</u>	<u>(224,726)</u>	<u>285</u>
-	-	-	6,800	6,800	-
(6,800)	(6,800)	-	(40,800)	(40,800)	-
<u>(6,800)</u>	<u>(6,800)</u>	<u>-</u>	<u>(34,000)</u>	<u>(34,000)</u>	<u>-</u>
(317,285)	(317,285)	-	(259,011)	(258,726)	285
197,966	197,966	-	771,364	771,364	-
405,986	405,986	-	2,459,234	2,459,234	-
<u>\$ 286,667</u>	<u>\$ 286,667</u>	<u>\$ -</u>	<u>\$ 2,971,587</u>	<u>\$ 2,971,872</u>	<u>\$ 285</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
STATEMENT OF CHANGES IN NET ASSETS -
FIDUCIARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2001

	External Investment Trust
Revenues	
Interest	\$ 76,255
Expenses	
Operating expenses	-
Net increase in assets resulting from operations	76,255
Distribution to participants	(76,255)
Capital transactions	(452,559)
Total decrease in net assets	(452,559)
Net assets, beginning of year	2,061,635
Net assets, end of year	\$ 1,609,076

The accompanying notes are an integral part of these financial statement.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 1 - Description of the Educational Service Center

The Educational Service Center of Lorain County was formed on June 13, 1914. The Educational Service Center supplies supervisory, administrative, fiscal, and other needed services to school districts and other agencies in the greater Lorain County area.

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 facility and staff who provide services to 26,761 students in local, city and exempted village school districts in Lorain County.

Reporting Entity

For financial reporting purposes, the reporting entity is defined to include the primary government, component units, and other organizations consistent with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", that are included to insure that the general purpose financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service Center.

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

The following entities which perform activities within the Educational Service Center's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the Educational Service Center is not financially accountable for these entities nor are they fiscally dependent on the Educational Service Center:

Special Education Regional Resource Center (SERRC) - SERRC is a three county special education service which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The Educational Service Center serves as fiscal agent for SERRC which is accounted for as an agency fund.

The Educational Service Center is associated with certain organizations which are defined as a jointly governed organization and public entity risk pools. These organizations are presented in Notes 9 and 10 to the general purpose financial statements. These organizations are:

Lake Erie Educational Computer Association (LEECA)
The Ohio School Boards Association Workers Compensation Group Rating Program (WCGRP)
Lake Erie Regional Council of Governments (LERC)

Note 2 - Summary of Significant Accounting Policies

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis Of Presentation - Fund Accounting

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

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

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

Governmental Fund Types:

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

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

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

Fiduciary Fund Types:

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

Account Groups:

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

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

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 60 days after year end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

The investment trust fund reports transactions and balances using the economic resources measurement and the accrual basis of accounting.

C. Budgetary Data

The budgetary process for the Educational Service Center 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 other information as the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. The State Board of Education reviews the budget.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 2 - Summary of Significant Accounting Policies (continued)

C. Budgetary Data (continued)

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.

Appropriations

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

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of moneys 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. Moneys 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 is presented as "Pooled Cash and Cash Equivalents" on the combined balance sheet.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 2 - Summary of Significant Accounting Policies (continued)

D. Cash and Cash Equivalents (continued)

During fiscal year 2001, investments were limited to certificates of deposit, STAR Ohio, the State Treasurer's Investment Pool, repurchase agreements, treasury notes, commercial paper and federal agency securities. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center has invested funds in the State Treasury Asset reserve of Ohio ("STAR Ohio") during fiscal year 2001. 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, 2001.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2001, the general fund received interest earned in the amount of \$300,889.

The Educational Service Center has segregated bank accounts for individual investment accounts held separate from the Educational Service Center's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "Cash and cash equivalents in segregated accounts" since they are not required to be deposited into the Educational Service Center's treasury.

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. The inventory balance at June 30, 2001 was not significant.

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. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received.

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. 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 districts are reported in an agency fund.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 2 - Summary of Significant Accounting Policies (continued)

H. Interfund Assets/Liabilities

Short-term interfund loans are classified as "Interfund receivables / payables."

I. Compensated Absences

The liability for compensated absences is based on 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 attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy.

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

J. 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 judgments, contractually required pension contributions, compensated absences, 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. Capital leases are reported as a liability of the general long-term obligations account group until due or until resources have been accumulated in the fund for payment early in the following year.

K. Interfund Transactions

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

L. 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. The Educational Service Center was not required to set aside any reserves required by Ohio House Bill 412.

M. 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.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 2001

Note 2 - Summary of Significant Accounting Policies (continued)

N. Total Columns on General Purpose Financial Statements

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

Note 3 - Changes in Accounting Principles and Restatement of Fund Balances

The Educational Service Center has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions" and GASB Statement No. 36, "Recipient Reporting for Certain Shared Non-exchange Revenues." At June 30, 2000, there was no effect on fund balance as a result of these implementations.

Note 4 - 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 and Actual (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/expenses 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).

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		
	General	Special Revenue
GAAP basis	\$ 915,276	\$ (180,116)
Net adjustments for revenue accruals	(345,996)	(58,877)
Advance in	6,800	-
Net adjustments for expenditure accruals	(483,521)	(71,492)
Advance out	(34,000)	(6,800)
Budget basis	\$ 58,559	\$ (317,285)

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 5 - Deposits and Investments

State statutes require the classification of moneys 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 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 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division 1) or 2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim moneys 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.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 5 - Deposits and Investments (continued)

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.

A. Deposits

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$1,890,490 and the bank balance was \$2,550,052. Of the bank balance, \$2,164,026 was covered by federal depository insurance and \$386,026 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.

B. 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 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 investment in STAR Ohio is not classified by degree of credit risk since these investments are not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Fair Value</u>
Federal Home Loan Bank	\$ 3,043,275	\$ 3,043,275
Federal Home Loan Mortgage Bonds	405,780	405,780
Federal National Mortgage Association Bonds	3,198,611	3,198,611
Money Market Mutual Funds	269,891	269,891
Repurchase Agreements	595,000	595,000
STAR Ohio	-	542,261
Total Investments	<u>\$ 7,512,557</u>	<u>\$ 8,054,818</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 5 - Deposits and Investments (continued)

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:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 9,945,308	\$ -
Investments which are part of the cash management pool:		
Federal Home Loan Bank	(3,043,275)	3,043,275
Federal Home Loan Mortgage Bonds	(405,780)	405,780
Federal National Mortgage Association Bonds	(3,198,611)	3,198,611
Money Market Mutual Funds	(269,891)	269,891
Repurchase Agreements	(595,000)	595,000
STAR Ohio	(542,261)	542,261
GASB Statement No. 3	\$ 1,890,490	\$ 8,054,818

Note 6 - Receivables

Receivables at June 30, 2001 consisted of accounts 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 receivables follows:

	Amounts
General Fund	
Tuition and fees	\$ 314,500
Customer services	9,833
Intergovernmental	48,208
Total General Fund	372,541
Special Revenue Funds	
Satellite media	56,944
Other grants	7,500
Title I	14,187
Total Special Revenue Funds	78,631
SERRC Agency Fund	94,786
Total intergovernmental receivables	\$ 545,958

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 7 - External Investment Pool

By State statute, the Educational Service Center serves as fiscal agent for legally separate entities. The Educational Service Center pools money of these entities 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 5, "Deposits and Investments". Condensed financial information for the investment pool follows:

Statement of Net Assets	
June 30, 2001	
Assets	
Equity in pooled cash and cash equivalents	\$ 5,647,718
Interest receivable	62,588
Total assets	\$ 5,710,306
Net asset held in trust for pool participants	
Internal portion	\$ 3,771,525
External portion	1,938,781
Total net assets held in trust for pool participants	\$ 5,710,306

Statement of Changes in Net Assets	
For Fiscal Year Ended June 30, 2001	
Revenues	
Interest	\$ 377,144
Expenses	
Operating expenses	-
Net increase in assets resulting from operations	377,144
Distribution to participants	(316,493)
Capital transactions	75,829
Total increase in net assets	136,480
Net assets beginning of year	5,573,826
Net assets end of year	\$ 5,710,306

Note 8 - State Funding

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

Part (B) of the budget is funded in the following way: \$6.50 times the ADM (Total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Educational Service Center provides services from payments made under the State's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the Educational Service Center.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 8 - State Funding (continued)

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

Note 9 - Jointly Governed Organization

Lake Erie Educational Computer Association

The Lake Erie Educational Computer Association (LEECA) is a jointly governed computer service organization among thirty-one members in the Ohio counties of Cuyahoga, Lorain, Erie, Huron, and Medina. These members are comprised of various public school districts and educational service centers in the counties previously mentioned. 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. LEECA is organized under Chapter 167 and 3313 of the Ohio Revised Code. The Educational Service Center serves as fiscal agent for LEECA and is one of the members mentioned above. LEECA is governed by an assembly which consists of a superintendent or designated representative from each participating member. LEECA has a Board of Directors chosen from the general membership of the LEECA Assembly which consists of a representative from the fiscal agent, chairmen of various committees, and at least one member from each participating county. 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. Financial information can be obtained by writing the Treasurer of the Educational Service Center of Lorain County, 1885 Lake Ave., Elyria, Ohio 44035 who serves as fiscal agent.

Note 10 - Public Entity Risk Pools

A. Insurance Purchasing Pool

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

B. Risk Sharing Pool

Health, dental, and vision insurance is available to most employees through the Lake Erie Regional Council of Governments (LERC). The program is a shared risk pool comprised of 12 Lorain County school districts and the Educational Service Center. Rates are set annually following an independent review and calculation process. The Educational Service Center pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating members. Claims are paid for all participants regardless of claim flow. Upon termination, all the Educational Service Center claims would be paid without regard to the Educational Service Center's account balance. Financial information can be obtained by writing the Treasurer of the Educational Service Center of Lorain County, 1885 Lake Ave., Elyria, Ohio 44035 who serves as the fiscal agent.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 11 - Fixed Assets

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

	Balance June 30,2000	Additions	Deletions	Balance June 30,2001
Building improvements	\$ -	\$ 99,282	\$ -	\$ 99,282
Furniture and equipment	543,296	162,672	(66,814)	639,154
Total fixed assets	<u>\$ 543,296</u>	<u>\$ 261,954</u>	<u>\$ (66,814)</u>	<u>\$ 738,436</u>

Note 12 - 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 2001, the Educational Service Center contracted with Indiana Insurance Company for property and general liability insurance. Leased vehicles are covered by Nationwide Insurance and Indiana Insurance Company and have a \$50 deductible for comprehensive and a \$250 deductible for collision. The vehicle liability insurance is on an occurrence basis with a \$1,000,000 combined single limit. Claims have never exceeded this coverage.

Professional liability is protected by the Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$2,000,000 single occurrence limit and a \$1,000 deductible.

For fiscal year 2001, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group rating Program, an insurance purchasing pool (see Note 10). The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members are calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

Health, dental, and vision insurance is available to most employees through the Lake Erie Regional Council of Governments (LERC). The program is a shared risk pool comprised of 12 Lorain County school districts and the Educational Service Center. Rates are set annually following an independent review and calculation process. The Service Center pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating members. The LERC Board of Directors has the right to return moneys to an exiting member subsequent to settlement of all expenses and claims. The Service Center pays 88 percent of the applicable premium with the remaining 12 percent being deducted from the employees' pay.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 13 - Defined Benefit Pension Plans

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, 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.20 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 5.55 percent. The contribution requirements 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 required contributions to SERS for the years ending June 30, 2001, 2000, and 1999 were \$231,469, \$222,542, and \$191,667, respectively. 100 percent was contributed for fiscal years 2001, 2000 and 1999.

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, 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 a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6 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 required contributions to STRS for the years ending June 30, 2001, 2000, and 1999, were \$423,457, \$423,628, and \$406,366, respectively. For fiscal year 2001, nothing was contributed and 100 percent was contributed for fiscal years 2000 and 1999. \$423,457 represents the unpaid contribution for fiscal year 2001 and is recorded as a liability within the respective funds.

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, 2001, four of the board members have elected social security. The Educational Service Center's liability is 6.2 percent of the wages paid to these board members.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 14 - Postemployment 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-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. 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 health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. The STRS board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$136,111, for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.419 million 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 \$283,137,000 and STRS had 99,011 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.80 percent of covered payroll, an increase of 1.3 percent from 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. For fiscal year 2001, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including surcharge, equaled \$172,520, during the 2001 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 reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140,696,340 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. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 15 - 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 5 to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time (to a maximum of 40 days) is paid to employees upon termination of employment. Not all employees earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 120 days, and one-third of accumulated sick leave beyond 120 days, to a maximum accumulation of 210 days. Maximum payment may not exceed 60 days.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 2001

Note 15 - Employee Benefits (continued)

B. Life Insurance

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through the Ohio Educational Employees Life Insurance Trust in an amount equal to one and one half times the employees salary rounded to the nearest \$500.

Note 16 - Capitalized Leases

In a prior year, the Educational Service Center entered into a capitalized lease for the acquisition of printing equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and 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 governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Fixed assets acquired by the 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, which amount is \$25,409. A corresponding liability was recorded in the general long-term obligations account group. During fiscal year 2001, the Educational Service Center paid the final payment on the lease agreement.

Note 17 - Operating Leases

The Educational Service Center is obligated to several operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreement are not reflected in the Educational Service Center's account groups. During 2001, expenditures for operating leases totaled \$42,223. The following is a schedule of future minimum lease payments as of June 30, 2001.

Year Ending June 30,	Amount
2002	\$ 32,221
2003	21,237
2004	16,503
2005	11,080
2006	10,000
2007-2011	50,000
Total minimum lease payments	\$ 141,091

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 2001

Note 18 - Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2001 were as follows:

	Principal Outstanding June 30, 2000	Additions	Deductions	Principal Outstanding June 30, 2001
Compensated absences	\$ 319,592	\$ 103,217	\$ -	\$ 422,809
Intergovernmental payables	8,764	10,868	8,764	10,868
Capital lease	4,092	-	4,092	-
Total general long-term obligations	<u>\$ 332,448</u>	<u>\$ 114,085</u>	<u>\$ 12,856</u>	<u>\$ 433,677</u>

The capital lease obligation was 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 employees are paid.

Note 19 - 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, 2001.

B. Litigation

The Educational Service Center is party to legal proceedings. The Educational Service Center management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the Educational Service Center.

Note 20 - Interfund Transactions

On the combined balance sheet the general fund reported an interfund receivable at June 30, 2001, of \$34,000. The SERRC agency fund had an interfund payable of the same amount.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 21 - School Funding Issue

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. This includes 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. Parity aid must also be fully funded no later than the beginning of fiscal year 2004 rather than the 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 October 10, 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 such reconsideration.

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

SUPPLEMENTAL AUDITOR'S REPORTS

JUNE 30, 2001

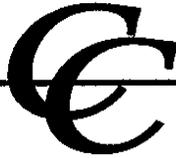
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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

YEAR ENDED JUNE 30, 2001

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COSTIN + COMPANY

Certified Public Accountants
35945 Center Ridge Road
North Ridgeville, OH 44039

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Governing Board
Educational Service Center of Lorain County
Elyria, Ohio

We have audited the general purpose financial statements of the Educational Service Center of Lorain County (Service Center), as of and for the year ended June 30, 2001, and have issued our report thereon dated December 12, 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 Service Center'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.

Internal Control Over Financial Reporting

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

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

December 12, 2001

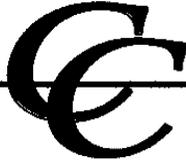
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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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

YEAR ENDED JUNE 30, 2001

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COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road

North Ridgeville, OH 44039

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

To the Governing Board
Educational Service Center of Lorain County
Elyria, Ohio

Compliance

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

We conducted our audit of compliance in accordance with 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, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

In our opinion, the Service Center, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

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

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

December 12, 2001

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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505

YEAR ENDED JUNE 30, 2001

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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 §.505
 JUNE 30, 2001

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs	84.027 Special Education Cluster 84.173 Special Education Cluster
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	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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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2001

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2001

	CFDA Number	Pass Through Number	Revenue Recognized	Federal Expenditures
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I	84.010	C1-AF-00P	\$ -	\$ 31,902
Title I	84.010	C1-SD-99C	-	31,118
Title I	84.010	C1-SS-00P	5,950	5,950
Title I	84.010	C1-AF-01P	97,690	68,267
Title I	84.010	C1-SD-01	24,477	3,083
Title I	84.010	C1-SD-00	49,931	35,931
Total Title I			<u>178,048</u>	<u>176,251</u>
Eisenhower Professional State Grants	84.281	MS-S1-99C	-	16,595
Goals 2000	84.276	G2-S4-99	-	23,176
Goals 2000	84.276	G2-S3-00	-	64,483
Goals 2000	84.276	G2-S3-01	42,000	24,572
Total Goals 2000			<u>42,000</u>	<u>112,231</u>
Education for Homeless Children and Youth	84.196	HC-S1-00	-	18,018
Education for Homeless Children and Youth	84.196	HC-S1-01	20,651	4,430
Total Education for Homeless Children and Youth			<u>20,651</u>	<u>22,448</u>
Special Education Cluster:				
Title VI-B	84.027	6B-S1-00P	31,604	164,295
Title VI-B	84.027	6B-S1-01P	571,841	498,194
Total Title VI-B			<u>603,445</u>	<u>662,489</u>
Preschool Grants	84.173	PG-S3-00P	-	11,335
Preschool Grants	84.173	PG-S7-00	-	6,869
Preschool Grants	84.173	PG-S3-01P	44,730	71,259
Preschool Grants	84.173	PG-S7-01P	11,250	2,496
Preschool Grants	84.173	PG-S1-00P	-	11,380
Preschool Grants	84.173	PG-S1-01P	41,799	21,577
Total Preschool Grants			<u>97,779</u>	<u>124,916</u>
Total Special Education Cluster			<u>701,224</u>	<u>787,405</u>
Learn and Serve America	94.004	SV-S3-00	-	2,187
Learn and Serve America	94.004	SV-S1-01	10,000	9,872
Total Learn and Serve America			<u>10,000</u>	<u>12,059</u>
State Library Program	45.310	II-44-E-2-99	205,090	265,210
Subtotal - Passed through State Department of Education			<u>1,157,013</u>	<u>1,392,199</u>
Total U.S. Department of Education			<u>1,157,013</u>	<u>1,392,199</u>
Total Federal Financial Assistance			<u>\$ 1,157,013</u>	<u>\$ 1,392,199</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2001

NOTE A BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Educational Service Center and is presented on the cash basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements, which are presented on the modified accrual basis.

NOTE B FISCAL AGENT

The Educational Service Center is the fiscal agent of the Northern Ohio Special Education Regional Resource Center, which is the grantee of the major federal program.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Columbus, Ohio 43216-1140
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800-282-0370
Facsimile 614-466-4490

LORAIN COUNTY EDUCATIONAL SERVICE CENTER

LORAIN 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 29, 2002**