



**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2002 & 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

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OFFICE OF THE AUDITOR

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying general-purpose financial statements of the Geauga County Educational Service Center, Geauga County, Ohio, (the "Service Center") as of and for the years ended June 30, 2002 and June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

We conducted our audits in accordance with 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Geauga County Educational Service Center, Geauga County, Ohio, as of June 30, 2002 and June 30, 2001, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the June 30, 2001 accompanying financial statements, the Service Center restated the General and Special Revenue Fund balances, General Fixed Assets Account Group and Investment Trust Fund as of June 30, 2000.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2002 on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

November 15, 2002

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Geauga County Educational Service Center

Geauga County

Combined Balance Sheet

All Fund Types and Account Groups

June 30, 2002

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Trust</u>
<i>Assets and Other Debit</i>			
Assets			
Equity in Pooled Cash and Cash Equivalents	\$635,245	\$188,355	\$911,068
Receivables:			
Intergovernmental	228,846	47,096	0
Interfund	7,533	0	0
Fixed Assets	0	0	0
Other Debit			
Amount to be Provided from General Government Resources	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Assets and Other Debit</i>	<u>\$871,624</u>	<u>\$235,451</u>	<u>\$911,068</u>
<i>Liabilities, Fund Equity and Other Credits</i>			
Liabilities			
Accounts Payable	\$6,432	\$4,042	\$0
Accrued Wages	320,755	10,581	0
Intergovernmental Payable	55,764	1,786	0
Compensated Absences Payable	2,476	0	0
Interfund Payable	<u>0</u>	<u>7,533</u>	<u>0</u>
<i>Total Liabilities</i>	<u>385,427</u>	<u>23,942</u>	<u>0</u>
Fund Equity and Other Credits			
Investment in General Fixed Assets	0	0	0
Net Assets	0	0	911,068
Fund Balance:			
Reserved for Encumbrances	15,136	17,010	0
Unreserved, Undesignated	<u>471,061</u>	<u>194,499</u>	<u>0</u>
<i>Total Fund Equity and Other Credits</i>	<u>486,197</u>	<u>211,509</u>	<u>911,068</u>
<i>Total Liabilities, Fund Equity and Other Credits</i>	<u>\$871,624</u>	<u>\$235,451</u>	<u>\$911,068</u>

See accompanying notes to the general purpose financial statements

Account Groups		
General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
\$0	\$0	\$1,734,668
0	0	275,942
0	0	7,533
181,554	0	181,554
<u>0</u>	<u>227,953</u>	<u>227,953</u>
<u>\$181,554</u>	<u>\$227,953</u>	<u>\$2,427,650</u>
\$0	\$0	\$10,474
0	0	331,336
0	5,542	63,092
0	222,411	224,887
<u>0</u>	<u>0</u>	<u>7,533</u>
<u>0</u>	<u>227,953</u>	<u>637,322</u>
181,554	0	181,554
0	0	911,068
0	0	32,146
<u>0</u>	<u>0</u>	<u>665,560</u>
<u>181,554</u>	<u>0</u>	<u>1,790,328</u>
<u>\$181,554</u>	<u>\$227,953</u>	<u>\$2,427,650</u>

Geauga County Educational Service Center
Geauga County
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances*
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Revenues			
Intergovernmental	\$1,312,861	\$323,565	\$1,636,426
Customer Services	2,626,503	28,782	2,655,285
Tuition and Fees	167,741	150	167,891
Interest	16,213	0	16,213
Donations	135	0	135
Miscellaneous	113,507	1,675	115,182
<i>Total Revenues</i>	<u>4,236,960</u>	<u>354,172</u>	<u>4,591,132</u>
Expenditures			
Current:			
Instruction:			
Regular	274,306	4,409	278,715
Special	1,239,322	55,623	1,294,945
Adult/Continuing	5,755	24,614	30,369
Support Services:			
Pupils	1,298,625	97,003	1,395,628
Instructional Staff	898,125	174,452	1,072,577
Board of Education	21,417	0	21,417
Administration	192,744	10,655	203,399
Fiscal	125,734	14,738	140,472
Business	107,734	0	107,734
Operation and Maintenance of Plant	2,775	4,190	6,965
Pupil Transportation	0	1,265	1,265
Central	19,756	5,776	25,532
<i>Total Expenditures</i>	<u>4,186,293</u>	<u>392,725</u>	<u>4,579,018</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	50,667	(38,553)	12,114
<i>Fund Balances Beginning of Year</i>	<u>435,530</u>	<u>250,062</u>	<u>685,592</u>
<i>Fund Balances End of Year</i>	<u>\$486,197</u>	<u>\$211,509</u>	<u>\$697,706</u>

See accompanying notes to the general purpose financial statements

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**Geauga County Educational Service Center
Geauga County**

*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002*

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental	\$1,312,861	\$1,312,861	\$0
Customer Services	2,406,295	2,406,295	0
Tuition and Fees	175,683	175,683	0
Interest	16,213	16,213	0
Donations	135	135	0
Miscellaneous	113,967	113,967	0
<i>Total Revenues</i>	<u>4,025,154</u>	<u>4,025,154</u>	<u>0</u>
Expenditures			
Current:			
Instruction:			
Regular	271,075	264,937	6,138
Special	1,380,660	1,217,937	162,723
Adult/Continuing	9,037	5,755	3,282
Support Services:			
Pupils	1,384,806	1,275,370	109,436
Instructional Staff	1,008,861	904,874	103,987
Board of Education	28,162	21,417	6,745
Administration	208,989	191,927	17,062
Fiscal	137,549	128,388	9,161
Business	109,425	104,979	4,446
Operation and Maintenance of Plant	4,641	2,775	1,866
Transportation	0	0	0
Central	40,691	19,339	21,352
<i>Total Expenditures</i>	<u>4,583,896</u>	<u>4,137,698</u>	<u>446,198</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(558,742)</u>	<u>(112,544)</u>	<u>446,198</u>
Other Financing Sources (Uses)			
Advances In	42,000	42,000	0
Advances Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>42,000</u>	<u>42,000</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i>	<u>(516,742)</u>	<u>(70,544)</u>	<u>446,198</u>
<i>Fund Balances Beginning of Year</i>	660,466	660,466	0
<i>Prior Year Encumbrances Appropriated</i>	<u>37,291</u>	<u>37,291</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u>\$181,015</u>	<u>\$627,213</u>	<u>\$446,198</u>

See accompanying notes to the general purpose financial statements

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$289,737	\$276,469	(\$13,268)	\$1,602,598	\$1,589,330	(\$13,268)
28,782	28,782	0	2,435,077	2,435,077	0
825	825	0	176,508	176,508	0
0	0	0	16,213	16,213	0
1,660	0	(1,660)	1,795	135	(1,660)
1,675	1,675	0	115,642	115,642	0
<u>322,679</u>	<u>307,751</u>	<u>(14,928)</u>	<u>4,347,833</u>	<u>4,332,905</u>	<u>(14,928)</u>
23,676	13,228	10,448	294,751	278,165	16,586
61,755	56,324	5,431	1,442,415	1,274,261	168,154
27,321	24,835	2,486	36,358	30,590	5,768
131,177	99,866	31,311	1,515,983	1,375,236	140,747
311,709	190,303	121,406	1,320,570	1,095,177	225,393
0	0	0	28,162	21,417	6,745
14,204	10,655	3,549	223,193	202,582	20,611
14,738	14,738	0	152,287	143,126	9,161
0	0	0	109,425	104,979	4,446
6,160	6,160	0	10,801	8,935	1,866
1,288	1,288	0	1,288	1,288	0
9,976	5,776	4,200	50,667	25,115	25,552
<u>602,004</u>	<u>423,173</u>	<u>178,831</u>	<u>5,185,900</u>	<u>4,560,871</u>	<u>625,029</u>
<u>(279,325)</u>	<u>(115,422)</u>	<u>163,903</u>	<u>(838,067)</u>	<u>(227,966)</u>	<u>610,101</u>
0	0	0	42,000	42,000	0
<u>(42,000)</u>	<u>(42,000)</u>	<u>0</u>	<u>(42,000)</u>	<u>(42,000)</u>	<u>0</u>
<u>(42,000)</u>	<u>(42,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(321,325)	(157,422)	163,903	(838,067)	(227,966)	610,101
310,585	310,585	0	971,051	971,051	0
6,636	6,636	0	43,927	43,927	0
<u>(\$4,104)</u>	<u>\$159,799</u>	<u>\$163,903</u>	<u>\$176,911</u>	<u>\$787,012</u>	<u>\$610,101</u>

Geauga County Educational Service Center

Geauga County

Statement of Changes in Net Assets

Fiduciary Fund Type

For the Fiscal Year Ended June 30, 2002

	<u>External Investment Trust</u>
Revenues	
Interest	\$16,212
Expenses	
Operating Expenses	<u>0</u>
<i>Net Increase in Assets Resulting from Operations</i>	16,212
Capital Transactions	<u>(82,397)</u>
<i>Total Increase in Net Assets</i>	(66,185)
<i>Net Assets Beginning of Year</i>	<u>977,253</u>
<i>Net Assets End of Year</i>	<u><u>\$911,068</u></u>

See accompanying notes to the general purpose financial statements

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Note 1 - Description of the Educational Service Center

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

The Educational Service Center operates under a locally-elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's instructional support services staffed by 33 noncertificated and 59 certificated staff who provide services to 13,278 students.

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation - Fund Accounting

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

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

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

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

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

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

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

Fiduciary Fund Types: Fiduciary funds are used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include trust and agency funds. The Educational Service Center has an investment trust fund.

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.

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.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

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, tuition, grants, and excess costs.

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

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

C. Budgetary Data

The budgetary process is prescribed by section 337.11 of the Ohio Revised Code. Annually, on or before a date designated by the State Board of Education, each Educational Service Center prepares a budget of operating expenses for the ensuing year on forms prepared and furnished by the State Board of Education and certifies the budget to the State Board of Education, together with such information as the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions, and travel expenses of supervisory teacher approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the County Educational Service Center. The State Board of Education reviews the budget.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

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

Encumbrances:

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

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

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

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

During fiscal year 2002, investments were limited to STAR Ohio, the State Treasurer's Investment Pool. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

Under existing Ohio statutes, the Board of Education may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2002, the general fund received interest earned in the amount of \$16,213.

E. Inventory

Inventories are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available spendable resources even though it is a component of net current assets. There was no significant inventory balance at June 30, 2002.

F. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure.

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

G. Pass-Through Grants

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

H. Interfund Assets and Liabilities

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

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

I. Compensated Absences

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

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

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 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. Capital leases are reported as a liability of the general long-term obligations account group until due.

K. Interfund Transactions

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

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.

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.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

N. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows 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 - Budgetary Basis of Accounting

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

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

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

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types	
	<u>General</u>	<u>Special Revenue</u>
<i>GAAP Basis</i>	\$50,667	(\$38,553)
Net Adjustment for Revenue Accruals	(211,806)	(46,421)
Advances In	42,000	0
Net Adjustment for Expenditure Accruals	64,160	(9,424)
Advances Out	0	(42,000)
Adjustment for Encumbrances	(15,565)	(21,024)
<i>Budget Basis</i>	<u>(\$70,544)</u>	<u>(\$157,422)</u>

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

Note 4 - Deposits and Investments

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

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

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily; and that the term of the agreement does not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

-
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
 6. The State Treasury Asset Reserve of Ohio; (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.

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.

Deposits:

At year-end, the carrying amount of the Educational Service Center's deposits was \$7,155 and the bank balance was \$146,098. Of the bank balance, \$100,000 was covered by federal depository insurance and \$46,098 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments:

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements", requires the Educational Service Center to categorize investments to give an indication of the level of risk assumed by the Educational Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center invests in STAR Ohio which is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form. The carrying and market value of the STAR Ohio investment at June 30, 2002 was \$1,727,513.

The classification of cash and cash equivalents, and investments on the combined financial statements is

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

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

	<i>Cash and Cash Equivalents/Deposits</i>	<i>Investments</i>
GASB Statement No. 9	<u>\$1,734,668</u>	<u>\$0</u>
Investments:		
STAR Ohio	<u>(1,727,513)</u>	<u>1,727,513</u>
GASB Statement No. 3	<u><u>\$7,155</u></u>	<u><u>\$1,727,513</u></u>

Note 5 - Receivables

Receivables at June 30, 2002, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivable follows:

	<u>Amounts</u>
General Fund:	
Customer Services	<u>\$228,846</u>
<i>Total General Fund</i>	<u><u>228,846</u></u>
<i>Special Revenue Funds:</i>	
Public Preschool	18,755
Adult Basic Education	14,928
Teen Institute	9,309
Early Childhood	<u>4,104</u>
<i>Total Special Revenue Funds</i>	<u><u>47,096</u></u>
Total Intergovernmental Receivables	<u><u>\$275,942</u></u>

Note 6 - External Investment Pool

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

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

Statement of Net Assets June 30, 2002

Assets

Equity in Pooled Cash and Cash Equivalents	\$1,734,668
<i>Total Assets</i>	<u><u>\$1,734,668</u></u>

Net Asset Held in Trust for Pool Participants

Internal Portion	\$823,600
External Portion	911,068
Total Net Assets Held in Trust for Pool Participants	<u><u>\$1,734,668</u></u>

Statement of Changes in Net Assets For Fiscal Year Ended June 30, 2002

Revenues

Interest	\$32,425
----------	----------

Expenses

Operating Expenses	<u>0</u>
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<i>Net Increase in Assets Resulting from Operations</i>	32,425
---------------------------------------------------------	--------

Distribution to Participants	(32,425)
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Capital Transactions	<u>(257,562)</u>
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<i>Total Increase in Net Assets</i>	<u>(257,562)</u>
-------------------------------------	------------------

<i>Net Assets Beginning of Year</i>	<u>1,992,230</u>
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<i>Net Assets End of Year</i>	<u><u>\$1,734,668</u></u>
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Note 7 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. All other lawful expenditures are funded by both State and local funds. The Educational Service Center receives \$43.50 for all other lawful expenditures and it is comprised of the following: \$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 district's to which the Educational Service Center provides services. These payments are received through 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.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of \$43.50 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

Note 8 - Jointly Governed Organization and Insurance Purchasing Pool

The Lake-Geauga Education Computer Association (the Association) is a jointly governed organization consisting of 18 school districts in Lake, Geauga and Cuyahoga County. This jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The executive committee consists of the member elected superintendents from participating school districts. The degree of control exercised by any participating school district is limited to its voting rights at general assembly meetings. The Educational Service Center is the fiscal agent as well as a voting member of the network. The assembly exercises total control over the operation of the Association including budgeting, appropriating, contracting and designation management. All the Association revenues are generated from charges for services and State funding. To obtain financial information, write to the Lake-Geauga Education Computer Association, 8140 Auburn Road, Painesville, Ohio, 44077.

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

Note 9 - Fixed Assets

A summary of the changes in general fixed assets during fiscal year 2002 follows:

	<i>Balance</i> <i>June 30, 2001</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance</i> <i>June 30, 2002</i>
Furniture and Fixtures	<u>\$162,608</u>	<u>\$18,946</u>	<u>\$0</u>	<u>\$181,554</u>

There was no significant construction in progress at June 30, 2002.

Note 10 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2002, the Educational Service Center was insured under the county wide contract held by the Geauga County Commissioners.

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

Professional liability is protected by the Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Vehicles are covered by Nationwide Insurance Company and hold a \$100 deductible for comprehensive and a \$500 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

Note 11 - Defined Benefit Pension Plan

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, 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 St., Suite 100, Columbus, Ohio 43215-3746 or calling (614)222-5853.

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 2002, 4.20 percent of annual covered salary was the portion used to fund pension obligations. 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, 2002, 2001, and 2000 were \$20,863, \$20,540 and \$19,240, respectively, equal to the required contributions for each year.

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 or by calling (614)227-4090.

For the fiscal year ended June 30, 2002, 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. 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, 2002, 2001, and 2000, were \$239,428, \$211,763, and \$122,997, respectively, equal to the required contributions for each year.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose social security. As of June 30, 2002, one 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.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

Note 12 - 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 \$113,413, for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 million at June 30, 2001 (the latest information available). For the year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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, 2002, employer contributions to fund health care benefits were 9.80 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including surcharge, equaled \$54,222, during the 2002 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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001 (the latest information available) SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participating currently receiving health care benefits.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

Note 13 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to 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 administrators do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 220 days. Upon retirement, employees are eligible to receive payment for one-fourth of their total sick leave accumulation up to 55 days.

B. Life Insurance

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

Note 14 - Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2002, were as follows:

	<i>Principal Outstanding June 30, 2001</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding June 30,2002</i>
<i>Intergovernmental Payable</i>	\$6,673	\$5,542	\$6,673	\$5,542
<i>Compensated Absences</i>	221,863	4,035	3,487	222,411
Total Long-Term Obligations	<u>\$228,536</u>	<u>\$9,577</u>	<u>\$10,160</u>	<u>\$227,953</u>

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

Note 15- Interfund Transactions

Interfund balances at June 30, 2002, consist of a receivable of \$7,533 for the general fund and a payable of \$575 for the federal preschool special revenue fund and \$6,958 for the adult basic education special revenue fund.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2002

Continued

Note 16- Contingencies

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, 2002.

Note 17 - 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.

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. In November, 2001, the Court granted this request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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Geauga County Educational Service Center
Geauga County
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2001

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Trust</u>
<i>Assets and Other Debit</i>			
Assets			
Equity in Pooled Cash and Cash Equivalents	\$697,757	\$317,220	\$977,253
Receivables:			
Accounts	22,848	0	0
Intergovernmental	17,040	675	0
Interfund	42,000	0	0
Fixed Assets	0	0	0
Other Debit			
Amount to be Provided from General Government Resources	0	0	0
<i>Total Assets and Other Debit</i>	<u>\$779,645</u>	<u>\$317,895</u>	<u>\$977,253</u>
<i>Liabilities, Fund Equity and Other Credits</i>			
Liabilities			
Accounts Payable	\$12,164	\$6,275	\$0
Accrued Wages	274,920	15,961	0
Intergovernmental Payable	56,008	3,597	0
Compensated Absences Payable	1,023	0	0
Interfund Payable	0	42,000	0
<i>Total Liabilities</i>	<u>344,115</u>	<u>67,833</u>	<u>0</u>
Fund Equity and Other Credits			
Investment in General Fixed Assets	0	0	0
Net Assets	0	0	977,253
Fund Balance:			
Reserved for Encumbrances	31,640	4,535	0
Unreserved, Undesignated	403,890	245,527	0
<i>Total Fund Equity and Other Credits</i>	<u>435,530</u>	<u>250,062</u>	<u>977,253</u>
<i>Total Liabilities, Fund Equity and Other Credits</i>	<u>\$779,645</u>	<u>\$317,895</u>	<u>\$977,253</u>

See accompanying notes to the general purpose financial statements

Account Groups		
General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
\$0	\$0	\$1,992,230
0	0	22,848
0	0	17,715
0	0	42,000
162,608	0	162,608
<u>0</u>	<u>228,536</u>	<u>228,536</u>
<u>\$162,608</u>	<u>\$228,536</u>	<u>\$2,465,937</u>
\$0	\$0	\$18,439
0	0	290,881
0	6,673	66,278
0	221,863	222,886
0	0	42,000
<u>0</u>	<u>228,536</u>	<u>640,484</u>
162,608	0	162,608
0	0	977,253
0	0	36,175
0	0	649,417
<u>162,608</u>	<u>0</u>	<u>1,825,453</u>
<u>\$162,608</u>	<u>\$228,536</u>	<u>\$2,465,937</u>

Geauga County Educational Service Center

Geauga County

Combined Statement of Revenues, Expenditures

and Changes in Fund Balances

All Governmental Fund Types

For the Fiscal Year Ended June 30, 2001

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
Revenues			
Intergovernmental	\$1,248,046	\$324,416	\$1,572,462
Customer Services	2,377,448	28,447	2,405,895
Tuition and Fees	51,736	112,425	164,161
Interest	36,784	0	36,784
Donations	0	3,350	3,350
Miscellaneous	153,561	28,474	182,035
<i>Total Revenues</i>	<u>3,867,575</u>	<u>497,112</u>	<u>4,364,687</u>
Expenditures			
Current:			
Instruction:			
Regular	89,028	190,440	279,468
Special	1,132,591	56,427	1,189,018
Adult/Continuing	3,523	15,777	19,300
Support Services:			
Pupils	1,266,121	79,897	1,346,018
Instructional Staff	796,722	126,333	923,055
Board of Education	23,249	0	23,249
Administration	174,806	7,227	182,033
Fiscal	127,507	0	127,507
Business	78,318	0	78,318
Operation and Maintenance of Plant	2,702	2,740	5,442
Central	27,543	3,000	30,543
<i>Total Expenditures</i>	<u>3,722,110</u>	<u>481,841</u>	<u>4,203,951</u>
<i>Excess of Revenues Over Expenditures</i>	145,465	15,271	160,736
<i>Fund Balances Beginning of Year (Restated See Note 3)</i>	<u>290,065</u>	<u>234,791</u>	<u>524,856</u>
<i>Fund Balances End of Year</i>	<u>\$435,530</u>	<u>\$250,062</u>	<u>\$685,592</u>

See accompanying notes to the general purpose financial statements

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Geauga County Educational Service Center
Geauga County

*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2001*

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental	\$1,248,046	\$1,248,046	\$0
Customer Services	2,418,468	2,418,468	0
Tuition and Fees	43,794	43,794	0
Interest	36,784	36,784	0
Donations	0	0	0
Miscellaneous	153,101	153,101	0
<i>Total Revenues</i>	<u>3,900,193</u>	<u>3,900,193</u>	<u>0</u>
Expenditures			
Current:			
Instruction:			
Regular	71,777	59,000	12,777
Special	1,429,246	1,200,646	228,600
Adult/Continuing	3,776	3,523	253
Support Services:			
Pupils	1,389,120	1,256,890	132,230
Instructional Staff	922,744	814,053	108,691
Board of Education	27,730	23,249	4,481
Administration	196,904	176,470	20,434
Fiscal	144,600	132,686	11,914
Business	84,011	78,318	5,693
Operation and Maintenance of Plant	8,750	2,702	6,048
Transportation	0	0	0
Central	34,940	28,090	6,850
<i>Total Expenditures</i>	<u>4,313,598</u>	<u>3,775,627</u>	<u>537,971</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(413,405)</u>	<u>124,566</u>	<u>537,971</u>
Other Financing Sources (Uses)			
Advances In	1,000	1,000	0
Advances Out	(42,000)	(42,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(41,000)</u>	<u>(41,000)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(454,405)</u>	<u>83,566</u>	<u>537,971</u>
<i>Fund Balances Beginning of Year</i>	564,822	564,822	0
<i>Prior Year Encumbrances Appropriated</i>	<u>12,078</u>	<u>12,078</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u>\$122,495</u>	<u>\$660,466</u>	<u>\$537,971</u>

See accompanying notes to the general purpose financial statements

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$332,885	\$332,885	\$0	\$1,580,931	\$1,580,931	\$0
28,447	28,447	0	2,446,915	2,446,915	0
111,750	111,750	0	155,544	155,544	0
0	0	0	36,784	36,784	0
3,350	3,350	0	3,350	3,350	0
28,474	28,474	0	181,575	181,575	0
504,906	504,906	0	4,405,099	4,405,099	0
219,825	211,708	8,117	291,602	270,708	20,894
64,943	58,642	6,301	1,494,189	1,259,288	234,901
24,966	15,991	8,975	28,742	19,514	9,228
102,277	76,460	25,817	1,491,397	1,333,350	158,047
311,539	129,442	182,097	1,234,283	943,495	290,788
		0	27,730	23,249	4,481
7,990	7,227	763	204,894	183,697	21,197
11,088	0	11,088	155,688	132,686	23,002
		0	84,011	78,318	5,693
5,800	2,830	2,970	14,550	5,532	9,018
2,000	0	2,000	2,000	0	2,000
3,484	3,000	484	38,424	31,090	7,334
753,912	505,300	248,612	5,067,510	4,280,927	786,583
(249,006)	(394)	248,612	(662,411)	124,172	786,583
42,000	42,000	0	43,000	43,000	0
(1,000)	(1,000)	0	(43,000)	(43,000)	0
41,000	41,000	0	0	0	0
(208,006)	40,606	248,612	(662,411)	124,172	786,583
251,394	251,394	0	816,216	816,216	0
18,585	18,585	0	30,663	30,663	0
\$61,973	\$310,585	\$248,612	\$184,468	\$971,051	\$786,583

Geauga County Educational Service Center
Geauga County

Statement of Changes in Net Assets

Fiduciary Fund Type

For the Fiscal Year Ended June 30, 2001

	<u>External Investment Trust</u>
Revenues	
Interest	\$36,784
Expenses	
Operating Expenses	<u>0</u>
<i>Net Increase in Assets Resulting from Operations</i>	36,784
Capital Transactions	<u>317,957</u>
<i>Total Increase in Net Assets</i>	354,741
<i>Net Assets Beginning of Year (Restated See Note 3)</i>	<u>622,512</u>
<i>Net Assets End of Year</i>	<u><u>\$977,253</u></u>

See accompanying notes to the general purpose financial statements

Geauga County Educational Service Center

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

The Educational Service Center operates under a locally-elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's instructional support services staffed by 28 noncertificated and 57 certificated staff who provide services to 13,088 students.

Reporting Entity

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

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

The Educational Service Center is associated with certain organizations which are defined as a Jointly Governed Organization and an Insurance Purchasing Pool. These organizations are presented in Note 9 to the general purpose financial statements. These organizations include the Lake-Geauga Computer Association and the Ohio School Boards Association Workers' Compensation Group Rating Plan.

Note 2 - Summary of Significant Accounting Policies

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

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

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 as governmental and fiduciary.

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

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

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

Fiduciary Fund Types: Fiduciary funds are used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include trust and agency funds. The Educational Service Center has an investment trust fund.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

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.

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, tuition, grants, and excess costs.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

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.

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

C. Budgetary Data

The budgetary process is prescribed by section 337.11 of the Ohio Revised Code. Annually, on or before a date designated by the State Board of Education, each Educational Service Center prepares a budget of operating expenses for the ensuing year on forms prepared and furnished by the State Board of Education and certifies the budget to the State Board of Education, together with such information as the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions, and travel expenses of supervisory teacher approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the County Educational Service Center. The State Board of Education reviews the budget.

Estimated Revenues:

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

Appropriations:

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

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

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.

D. Cash and Cash Equivalents

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

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

Under existing Ohio statutes, the Board of Education 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 \$36,784.

E. Inventory

Inventories are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available spendable resources even though it is a component of net current assets. There was no significant inventory balance at June 30, 2001.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

F. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure.

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

G. Pass-Through Grants

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

H. Interfund Assets and Liabilities

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

I. Compensated Absences

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

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

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

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 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. Capital leases are reported as a liability of the general long-term obligations account group until due.

K. Interfund Transactions

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

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.

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.

N. Memorandum Only - Total Columns

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

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

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.

The general fund balance was restated from \$398,283 to \$290,065 and the special revenue fund balance from \$126,574 to \$234,791. It was determined that certain funds, whose fund balances totaled \$108,218, that had been rolled into the general fund balance would be better identified as special revenue funds.

The balance stated in the general fixed assets account group at July 1, 2000 was restated from \$187,164 to \$146,585, resulting in a decrease of \$40,579. The fixed assets balance had been overstated in the prior year.

The balance of the Investment Trust Fund has been restated from \$687,480 to \$622,512, a decrease of \$64,968. In prior years, the balance sheet had recognized both receivables and payables and since the Investment Trust Fund has no recognition criteria it was determined that these balance sheet items should not have been recognized.

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 (Non-GAAP Basis) and Actual, All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major difference between the budget basis and GAAP basis are that:

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

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

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

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

	<u>General</u>	<u>Special Revenue</u>
<i>GAAP Basis</i>	\$145,465	\$15,271
Net Adjustment for Revenue Accruals	32,618	7,794
Advances In	1,000	42,000
Net Adjustment for Expenditure	(16,227)	(16,824)
Advances Out	(42,000)	(1,000)
Adjustment for Encumbrances	(37,290)	(6,635)
<i>Budget Basis</i>	<u>\$83,566</u>	<u>\$40,606</u>

Note 5 - Deposits and Investments

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

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

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

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.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

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

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

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

Deposits:

At year-end, the carrying amount of the Educational Service Center's deposits was \$15,166 and the bank balance was \$282,855. \$100,000 was covered by federal depository insurance and \$182,855 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.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

Investments:

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements", requires the Educational Service Center to categorize investments to give an indication of the level of risk assumed by the Educational Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name.

The Educational Service Center invests in STAR Ohio which is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form. The carrying and market value of the STAR Ohio investment at June 30, 2001 was \$1,977,064.

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

	<i>Cash and Cash Equivalents/Deposits</i>	<i>Investments</i>
GASB Statement No.	\$1,992,230	\$0
Investments:		
STAR Ohio	(1,977,064)	1,977,064
GASB Statement No.	<u>\$15,166</u>	<u>\$1,977,064</u>

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

Note 6 - Receivables

Receivables at June 30, 2001, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivable follows:

	Amounts
General Fund:	
Tuition	\$7,942
Customer Services	8,638
Reimbursements	460
Total General Fund	<u>17,040</u>
Alternative School	<u>675</u>
Total Intergovernmental	<u><u>\$17,715</u></u>

Note 7 - External Investment Pool

By statute, the Educational Service Center serves as fiscal agent for a legally separate entity. The Educational Service Center pools money of this entity with the Educational Service Center's for investment purposes. The Educational Service Center cannot allocate its investment between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rat 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	\$1,992,230
<i>Total Assets</i>	<u><u>\$1,992,230</u></u>
Net Asset Held in Trust for Pool Participants	
Internal Portion	\$1,014,977
External Portion (Restated See Note 3)	977,253
Total Net Assets Held in Trust for Pool	<u><u>\$1,992,230</u></u>

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

Statement of Changes in Net Assets
For Fiscal Year Ended June 30, 2001

Revenues	
Interest	\$73,568
Expenses	
Operating Expenses	0
<i>Net Increase in Assets Resulting from Operations</i>	<u>73,568</u>
Distribution to Participants	(73,568)
Capital Transactions	522,839
<i>Total Increase in Net Assets</i>	<u>522,839</u>
<i>Net Assets Beginning of Year</i>	<u>1,469,391</u>
<i>Net Assets End of Year</i>	<u><u>\$1,992,230</u></u>

Note 8 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. All other lawful expenditures are funded by both State and local funds. The Educational Service Center receives \$43.50 for all other lawful expenditures and it is comprised of the following: \$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 district's to which the Educational Service Center provides services. These payments are received through 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.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of \$43.50 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

Note 9- Jointly Governed Organization and Insurance Purchasing Pool

The Lake-Geauga Education Computer Association (the Association) is a jointly governed organization consisting of 18 school districts in Lake, Geauga and Cuyahoga County. This jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The executive committee consists of the member elected superintendents from participating school districts. The degree of control exercised by any participating school district is limited to its voting rights at general assembly meetings. The Educational Service Center is the fiscal agent as well as a voting member of the network. The assembly exercises total control over the operation of the Association including budgeting, appropriating, contracting and designation management. All the Association revenues are generated from charges for services and State funding. To obtain financial information, write to the Lake-Geauga Education Computer Association, 8140 Auburn Road, Painesville, Ohio, 44077.

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

Note 10- Fixed Assets

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

	<i>Restated Balance June 30, 2000</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance June 30, 2001</i>
Furniture and Fixtures	<u>\$146,585</u>	<u>\$16,023</u>	<u>\$0</u>	<u>\$162,608</u>

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

Note 11- 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 was insured under the county wide contract held by the Geauga County Commissioners.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

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

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

Note 12 - Defined Benefit Pension Plan

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, 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 5.5 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 \$20,540, \$19,240, and \$24,109, respectively, equal to the required contributions for each year.

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.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

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 \$211,763, \$122,997, and \$165,345, respectively, equal to the required contributions for each year.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose social security. 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.

Note 13 - 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 \$100,309, for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 million at June 30, 2001. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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.

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

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 \$54,599, 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, 2001, were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001 SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participating currently receiving health care benefits.

Note 14 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to 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 administrators do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 220 days. Upon retirement, employees are eligible to receive payment for one-fourth of their total sick leave accumulation up to 55 days.

B. Life Insurance

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

Geauga County Educational Service Center

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

Continued

Note 15 - Long-Term Obligations

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

	<i>Principal Outstanding June 30, 2000</i>	<i>Additions</i>	<i>Deductions</i>	<i>Principal Outstanding June 30,2001</i>
<i>Intergovernmental Payable</i>	\$4,126	\$6,673	\$4,126	\$6,673
<i>Compensated Absences</i>	227,872	0	6,009	221,863
Total Long-Term	<u>\$231,998</u>	<u>\$6,673</u>	<u>\$10,135</u>	<u>\$228,536</u>

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

Note 16- Interfund Transactions

Interfund balances at June 30, 2001, consist of a receivable of \$42,000 for the general fund and a payable of \$42,000 for the entry year special revenue fund.

Note 17- Contingencies

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.

Note 18 - 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.

Note 19 - Compliance

As of August 30, 2000, the Special Revenue Fund - Miscellaneous State Grants Regular Instruction and Fringe Benefits, had expenditures in excess of the amount appropriated, contrary to Section 5705.41(B), Revised Code, in the amounts of \$2,345 and \$1,285 respectively.

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OFFICE OF THE AUDITOR

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

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

We have audited the financial statements of the Geauga County Educational Service Center, Geauga County, Ohio, (the "Service Center") as of and for the years ended June 30, 2002 and June 30, 2001, and have issued our report thereon dated November 15, 2002 wherein we noted the Service Center restated the General and Special Revenue Fund balances, General Fixed Assets Account Group and Investment Trust Fund. We conducted our audits 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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Service Center in a separate letter dated November 15, 2002.

Internal Control Over Financial Reporting

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

However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated November 15, 2002.

Board of Education
Geauga County Educational Service Center
Geauga County
Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

November 15, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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GEAUGA COUNTY EDUCATIONAL SERVICE CENTER

GEAUGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 23, 2002**