



**Auditor of State
Betty Montgomery**

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Lake County Educational Service Center
Lake County
30 South Park Place
Suite 320
Painesville, Ohio 44077

To the Members of the Board:

We have audited the accompanying general-purpose financial statements of the Lake County Educational Service Center, Lake County, Ohio, (the 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 Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2003 on our consideration of the 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 audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

July 30, 2003

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LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types				Proprietary Fund Type			Account Groups			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	\$	Internal Service	General		Long-term Debt	\$		
						Fixed Assets	General				
\$ 183,687	\$ 425,593	\$ 192,701	\$	6,502	\$	-	-	\$	\$ 808,483		
159,781	-	-	-	-	-	-	-	-	159,781		
-	5,256,572	-	-	-	-	-	-	-	5,256,572		
939,619	70,099	-	-	-	-	-	-	-	1,009,718		
21,429	-	-	-	-	-	-	-	-	21,429		
-	-	-	-	-	-	303,597	-	-	303,597		
-	-	-	-	-	-	-	69,768	-	69,768		
\$ 1,304,516	\$ 5,752,264	\$ 192,701	\$	6,502	\$	303,597	\$	69,768	\$ 7,629,348		

ASSETS AND OTHER DEBITS:

Assets:
 Equity in pooled cash and investments
 Cash with fiscal agent
 Receivables:
 Taxes
 Intergovernmental
 Due from other funds
 Fixed assets
 Other Debits:
 Amount to be provided for retirement
 of general long-term debt

Total assets and other debits

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

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2002**

	Governmental Fund Types				Proprietary Fund Type			Account Groups			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Internal Service	General Assets	Long-term Debt	General		Totals		
							Fixed	Debt			
LIABILITIES, FUND EQUITY AND OTHER CREDITS:											
Liabilities:											
Accounts payable	\$ 3,466	\$ 79,102	\$ 669	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83,237
Intergovernmental payable	-	5,291,524	-	-	-	-	-	-	-	-	5,291,524
Due to other funds	-	21,429	-	-	-	-	-	-	-	-	21,429
Accrued wages and benefits	413,747	53,188	-	-	-	19,118	-	-	-	-	486,053
Claims payable	76,167	-	-	-	-	-	-	-	-	-	76,167
Compensated absences payable	-	-	-	-	-	38,217	-	-	-	-	38,217
Capital lease obligations	-	-	-	-	-	12,433	-	-	-	-	12,433
Total liabilities	493,380	5,445,243	669	-	-	69,768	-	-	-	-	6,009,060
Fund Equity and Other Credits:											
Investment in general fixed assets	-	-	-	-	303,597	-	-	-	-	-	303,597
Retained earnings	-	-	-	6,502	-	-	-	-	-	-	6,502
Fund balances:											
Reserved for encumbrances	44,778	232,918	3,468	-	-	-	-	-	-	-	281,164
Unreserved, undesignated	766,358	74,103	188,564	-	-	-	-	-	-	-	1,029,025
Total fund equity and other credits	811,136	307,021	192,032	6,502	303,597	-	-	-	-	-	1,620,288
Total liabilities, fund equity and other credits	\$ 1,304,516	\$ 5,752,264	\$ 192,701	\$ 6,502	\$ 303,597	\$ 69,768	\$ -	\$ -	\$ -	\$ -	\$ 7,629,348

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

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
REVENUES:				
Revenue from local sources:				
Taxes	\$ -	\$ 5,417,702	\$ -	\$ 5,417,702
Tuition	954,641	7,837	-	962,478
Earnings on investments	23,524	863	-	24,387
Revenue from state sources:				
Unrestricted grants-in-aid	2,594,088	1,070,312	-	3,664,400
Restricted grants-in-aid	21,004	818,456	116,912	956,372
Revenue from federal sources:				
Restricted grants-in-aid	-	8,046	-	8,046
Charge for Services	1,254,486	-	-	1,254,486
Miscellaneous	-	37,035	-	37,035
Total revenue	<u>4,847,743</u>	<u>7,360,251</u>	<u>116,912</u>	<u>12,324,906</u>
EXPENDITURES:				
Instruction:				
Regular	50,747	474,038	139,146	663,931
Special	966,524	53,379	-	1,019,903
Vocational education	194,833	-	-	194,833
Other	-	436	-	436
Supporting services:				
Pupils	1,055,117	19,691	-	1,074,808
Instructional staff	1,033,472	164,318	97,275	1,295,065
Board of Education	43,011	6,493,715	-	6,536,726
Administration	968,700	34,302	-	1,003,002
Fiscal services	150,118	3,000	-	153,118
Operation and maintenance - plant	129,140	9,732	-	138,872
Pupil transportation	12,716	16,297	-	29,013
Central	201,666	4,392	-	206,058
Operation of non-instructional services:				
Food services	-	368	-	368
Sports oriented activities	-	4,740	-	4,740
Total expenditures	<u>4,806,044</u>	<u>7,278,408</u>	<u>236,421</u>	<u>12,320,873</u>
Excess (deficiency) of revenues over (under) expenditures	<u>41,699</u>	<u>81,843</u>	<u>(119,509)</u>	<u>4,033</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	6,655	-	6,655
Operating transfers out	(6,655)	-	-	(6,655)
Refund of prior year expenditures (revenues)	3,621	(2,797)	-	824
Total other financing sources (uses)	<u>(3,034)</u>	<u>3,858</u>	<u>-</u>	<u>824</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	38,665	85,701	(119,509)	4,857
BEGINNING FUND BALANCE	<u>772,471</u>	<u>221,320</u>	<u>311,541</u>	<u>1,305,332</u>
ENDING FUND BALANCE	<u>\$ 811,136</u>	<u>\$ 307,021</u>	<u>\$ 192,032</u>	<u>\$ 1,310,189</u>

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

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	General Fund			Special Revenue Fund			Capital Projects Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance (Unfavorable)	Budget	Actual	Variance (Unfavorable)	Budget	Actual	Variance (Unfavorable)	Budget	Actual	Variance (Unfavorable)
REVENUES	\$ 512,856	\$ 495,978	\$ (16,878)	\$ 7,800	\$ 7,837	\$ 37	\$ -	\$ -	\$ -	\$ 520,656	\$ 503,815	\$ (16,841)
Tuition	29,900	23,524	(6,376)	863	863	(7)	-	-	-	30,770	24,387	(6,383)
Earnings on investments	-	1,249,195	(172,792)	34,384	31,884	(2,500)	-	-	-	1,456,371	1,281,079	(175,292)
Miscellaneous	-	-	-	5,132	5,151	19	-	-	-	5,132	5,151	19
Extracurricular activities	-	-	-	222,943	153,110	(69,833)	-	-	-	2,651,700	2,594,088	(57,612)
Revenue from intermediate sources - restricted	2,651,700	2,594,088	(57,612)	649,582	630,199	(19,383)	1,250	1,250	-	2,651,700	2,594,088	(57,612)
Revenue from state sources - unrestricted	-	-	-	8,046	8,046	-	-	-	-	849,582	730,199	(119,383)
Revenue from federal sources - restricted	-	-	-	8,046	8,046	-	15,662	15,662	-	23,708	23,708	-
Total revenues	4,616,443	4,362,785	(253,658)	928,757	837,090	(91,667)	216,912	116,912	(100,000)	5,762,112	5,316,787	(445,325)
EXPENDITURES												
Current												
Instruction:												
Regular	63,036	63,003	33	473,377	466,779	6,598	297,983	292,937	5,046	834,396	822,719	11,677
Special	935,839	935,777	62	668	668	-	-	-	-	936,507	935,777	730
Vocational	192,980	192,979	1	58,209	53,941	4,268	-	-	-	251,189	246,920	4,269
Support services:												
Pupil	1,020,671	1,020,656	15	20,363	20,363	-	114,325	102,613	11,712	1,041,034	1,041,019	15
Instructional staff	1,068,511	1,068,504	7	374,570	239,492	135,078	-	-	-	1,557,406	1,410,609	146,797
Board of Education	49,150	49,135	15	5,424	5,424	-	-	-	-	54,574	54,559	15
Administration	971,694	971,633	61	34,787	34,787	-	-	-	-	1,006,481	1,006,420	61
Fiscal	154,518	154,509	9	3,409	3,409	-	-	-	-	157,927	157,918	9
Operation and maintenance of plant	113,227	113,226	1	9,732	9,732	-	21,100	21,095	5	144,059	144,053	6
Pupil transportation	12,720	12,716	4	16,409	16,409	-	-	-	-	29,129	29,125	4
Central	212,164	212,116	48	4,563	4,543	20	-	-	-	216,727	216,659	68
Non-instructional services:												
Food service	-	-	-	368	368	-	-	-	-	368	368	-
Total expenditures	4,794,510	4,794,254	256	1,001,879	855,247	146,632	433,408	416,645	16,763	6,229,797	6,066,146	163,651
Excess (deficiency) of revenue over (under) expenditures	(178,067)	(431,469)	(253,402)	(73,122)	(18,157)	54,965	(216,496)	(299,733)	(83,237)	(467,685)	(749,359)	(281,674)
OTHER FINANCING SOURCES (USES)												
Advances in	35,900	35,900	-	21,429	21,429	-	-	-	-	57,329	57,329	-
(21,429)	(21,429)	(21,429)	7	(35,805)	(35,805)	-	-	-	-	(57,234)	(57,234)	-
Transfers out	(6,655)	(6,655)	-	6,655	6,655	-	-	-	-	-	-	-
Refund of prior year receipts	-	-	-	(2,797)	(2,797)	-	-	-	-	(2,797)	(2,797)	-
Refund of prior year expenditures	4,145	4,150	5	-	-	-	-	-	-	4,145	4,150	5
Total other financing uses	11,961	11,966	5	(10,518)	(10,518)	-	-	-	-	1,443	1,448	5
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(166,106)	(419,503)	(253,397)	(83,640)	(28,675)	54,965	(216,496)	(299,733)	(83,237)	(466,242)	(747,911)	(281,669)
FUND BALANCES - BEGINNING OF YEAR	539,147	539,147	-	286,469	286,469	-	125,964	125,964	-	951,580	951,580	-
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	16,427	16,427	-	15,277	15,277	-	214,723	214,723	-	246,427	246,427	-
FUND BALANCES - END OF YEAR	\$ 389,468	\$ 136,071	\$ (253,397)	\$ 218,106	\$ 273,071	\$ 54,965	\$ 124,191	\$ 40,954	\$ (83,237)	\$ 731,765	\$ 450,096	\$ (281,669)

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

LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2002

	Internal Service Fund
OPERATING REVENUES	
Extracurricular activities	\$ 19,381
OPERATING EXPENSES	
Purchased services	7,125
Operation and maintenance	5,659
Total operating expenses	12,784
Operating gain	6,597
BEGINNING RETAINED EARNINGS	(95)
ENDING RETAINED EARNINGS	\$ 6,502

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

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2002**

	Internal Service Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Extracurricular activities	\$ 19,668	\$ 19,381	\$ (287)
OPERATING EXPENSES			
Contractual services	7,125	7,125	-
Capital outlay	5,659	5,659	-
Total operating expenses	12,784	12,784	-
Operating gain	6,884	6,597	(287)
NON-OPERATING (EXPENSES)			
Advances Out	-	(95)	(95)
Net income	6,884	6,502	(382)
FUND EQUITY - BEGINNING OF YEAR	-	-	-
FUND EQUITY - END OF YEAR	\$ 6,884	\$ 6,502	\$ (382)

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

LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2002

	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating gain	<u>\$ 6,597</u>
ADJUSTMENTS TO RECONCILE OPERATING GAIN TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net increase in liabilities:	
Interfund payable	<u>(95)</u>
Net increase in cash and cash equivalents	6,502
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 6,502</u></u>

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

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**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE DISTRICT

The Lake County Educational Service Center (the "Center"), formerly the Lake County Board of Education, is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a local county school district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the Center.

The Center is located in Lake County. The Center serves five local school districts: Painesville Township Local School District, Painesville City Local School District, Kirtland Local School District, Madison Local School District and Perry Local School District.

The Center employed 94 certificated employees and 34 non-certificated employees.

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. FINANCIAL REPORTING ENTITY

The Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The financial statements include all the organizations, activities, functions and component units for which the Center (Primary Government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the Center's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center.

On this basis, the financial statements of the Lake County School Financing District have been included in the accompanying general-purpose financial statements as a blended component unit. The Financing District is legally separate, but governed by the same board; therefore, the Center has the ability to impose its will over the Financing District. The Center acts as the fiscal agent for the Lake County School Financing District.

The Center is associated with four organizations, two jointly governed organizations, one claims servicing pool, and one insurance purchasing pool. These organizations are the Lake Geauga Computer Association, the Ohio Schools Council Association, the Lake County Schools Council of Governments' Health Care Benefits Program and the Ohio School Boards Association Workers' Compensation Group Rating Plan. Information about these organizations is discussed in Notes 13, 14, and 15 to the general-purpose financial statements.

b. BASIS OF PRESENTATION

The accounting policies of the Center conform to generally accepted accounting principles (GAAP) as applicable to governments.

The financial transactions of the Center are recorded in individual funds and account groups. The various funds and account groups are reported by type in the general-purpose financial statements. Amounts in the "totals - memorandum only" columns in the general-purpose financial statements represent a summation of the combined financial statement line items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, interfund transactions that have not been eliminated, and the caption "amounts to be provided", which does not represent an asset. Consequently, amounts shown in the "totals - memorandum only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the Center.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. BASIS OF PRESENTATION (CONTINUED)

The Center uses the following fund categories, fund types and account groups:

Governmental Fund Types

Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during a period.

General Fund - The general operating fund of the Center is used to account for all revenues and expenditures except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for revenue from specific sources (other than major capital projects) which require separate accounting because of legal restrictions requiring that expenditures be for specified purposes.

Capital Projects Fund – Capital projects fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Type

Proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund measurement focus is based upon determination of net income, financial position and cash flows.

Internal Service Funds – Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

Account Groups

Account groups are used to establish accounting control and accountability for the Center's general fixed asset and general long-term debt.

General Fixed Assets - General fixed assets are used to account for capital assets used in general government operations with a useful life of greater than one year.

General Long-Term Debt - General long-term debt is used to account for all long-term obligations of the Center, except for those accounted for in Proprietary Funds. These obligations are secured by the credit of the Center as a whole and are payable from general government resources.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. BASIS OF ACCOUNTING

Governmental Fund Types are accounted for on the modified accrual basis of accounting. Governmental revenues are recognized when they become measurable and available to finance expenditures of the current period. Revenue items, which are susceptible to accrual and therefore are recorded as receivables, include property taxes, tuitions/excess cost, tuitions and reimbursable-type grants. Expenditures are recognized when the related fund liability is incurred, with the exception of accumulated unpaid employee compensation, which is not payable from current expendable financial resources.

Proprietary Fund Types are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There was no unbilled service charges receivable at year end.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Center, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 4) 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 Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", the Center follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

d. BUDGETARY BASIS OF ACCOUNTING

Based on the requirements of Section 3317.11, Ohio Revised Code, the budgetary process described below applies specifically to the Lake County Educational Service Center and is not applicable to the Lake County School Financing District.

The Center is required by State statute to adopt an annual appropriation budget for all fund types except agency funds. The specific timetable is as follows:

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

In June, the Treasurer submits to the Board of Education a temporary proposed operating budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing for all funds. In October, the Board adopts a permanent budget. Annually, on or before a date designated by the State Board of Education, the board-adopted budget is filed with the Ohio Department of Education using special Form SF5. Prior to June 30, the Board must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Estimated Resources. The budget may be further amended during the year if projected increases or decreases in revenue are identified by the Board Treasurer.

By the June Board meeting, the temporary annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as approved by the Board and the total of expenditures and encumbrances may not exceed the appropriation totals. 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 Board of Education.

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds are completed in the year within the amount of their legally authorized appropriation.

Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during fiscal 2001-2002.

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

The Center's budgetary process accounts for certain transactions on a basis, which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.
2. Expenditures are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is susceptible to accrual for GAAP purposes.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

An analysis of the difference in fund balance for all governmental fund types at June 30, 2002 as determined under the GAAP basis and budget basis follows:

	General Fund	Special Revenue Fund	Capital Projects Fund	Internal Service Fund
GAAP basis - fund balance	\$ 811,136	\$ 307,021	\$ 192,032	\$ 6,502
Reclassification	--	(546)	--	--
Accrued revenue/prepaid expenses at June 30, 2002	(1,120,829)	(5,326,671)	--	--
Accrued expenditures/deferred revenue at June 30, 2002	493,380	5,445,243	669	--
Encumbrances outstanding at June 30, 2002 (budget basis)	(47,616)	(151,976)	(151,747)	--
Budget-basis fund balance	<u>\$ 136,071</u>	<u>\$ 273,071</u>	<u>\$ 40,954</u>	<u>\$ 6,502</u>

Based on the requirements of Chapter 5705, Revised Code, the budgetary process described below applies specifically to the Lake County School Financing District, and is not applicable to the Lake County Educational Service Center. The Lake County School Financing District is an agency fund on the budgetary basis.

e. BUDGET

A budget of estimated cash receipts and disbursements is submitted to the county auditor, as secretary of the county budget commission, by January 20 of each year, for the following July 1 to June 30 fiscal year.

f. ESTIMATED RESOURCES

The county budget commission certifies its actions to the Center by March 1. As part of this certification, the Center receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the Center must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying general-purpose financial statements do not include July 1, 2001 unencumbered fund balances. However, those fund balances are available for appropriations.

g. APPROPRIATIONS

By the June Board meeting, the temporary annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as approved by the Board and the total of expenditures and encumbrances may not exceed the appropriation totals. 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 Board of Education.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. APPROPRIATIONS (CONTINUED)

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds are completed in the year within the amount of their legally authorized appropriation. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during fiscal 2001-2002.

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

h. ENCUMBRANCES

The Center is required to use the encumbrance method of accounting by virtue of Ohio law. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control. Encumbrances are reported as a reservation of fund balance in all Governmental Fund Types.

i. CASH AND CASH EQUIVALENTS

To improve cash management, cash received by the Center is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through Center records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the combined balance sheet.

During fiscal year 2002, investments were limited to STAR Ohio, the State Treasurer's Investment Pool, discounted commercial paper and mutual funds. All investments of the Center had a maturity of two years or less. Investments are reported at fair value, which is based on quoted market prices.

The Center has invested funds in the State Treasury Assets Reserve (STAR Ohio) during fiscal year 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

Following Ohio statutes, the Center has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$ 23,524.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. FIXED ASSETS AND DEPRECIATION

General Fixed Assets Account Group - General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The Center follows the policy of not capitalizing assets with a cost of less than \$ 500 and a useful life of less than one year. No depreciation is recognized for assets in the General Fixed Assets Account Group.

k. INTERFUND TRANSACTIONS

During the course of normal operations, the Center has numerous transactions between funds, including expenditures and transfers of resources to provide services and improve assets. Operating subsidies are recorded as operating transfers. The classification of amounts recorded as subsidies, advances or equity contributions is based on the intent of the Center at the time of the transaction.

l. FUND BALANCE RESERVES

Reserved fund balances indicate that a portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances. The unreserved portions of fund equity reflected for the Governmental Fund Types are available for use within the specific purposes of those funds.

3. EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the Center into three categories.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

2. Bonds, notes, debentures or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Bank, Federal Farm Credit Bank, Federal Home Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must 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;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain banker's acceptance 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 monies available for investment at any one time.

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 Center, and must be purchased with the expectation that it will be held until maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be paid only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At June 30, 2002, the Center's general fund had a balance of \$ 159,781 with Lake County Council of Governments Health Care Benefits Program, a claims servicing pool (See Note 14). The money is held by the claims servicer in a pooled account which is representative of numerous entities and, therefore, cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Mentor Exempted Village School District. To obtain financial information, write to Mr. James Metz, Mentor Exempted Village School District, 6451 Center Street, Mentor, Ohio 44060.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement No. 3.

Deposits - At fiscal year end, the carrying amount of the Center's deposits was \$ 191,027 and the bank balance was \$ 61,122. The bank balance was covered by federal depository insurance. Although any securities serving as collateral were held by the pledging financial institutions' trust department or agent not in the Center's name and all state statutory requirements for the deposit of money have been followed, noncompliance with federal requirements would potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments - Investments made by the Center as of June 30, 2002 are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1 Insured or registered, with investments held by the Center or its agents in the Center's name.
- Category 2 Uninsured and unregistered, with investments held by the counterparty's trust department or agent in the Center's name.
- Category 3 Uninsured and unregistered, with investments held by the counterparty, or by its trust department or agent but not in the Center's name.

	Carrying Value	Fair Value
Centennial Government Trust	\$ 973	\$ 973
STAR Ohio	466,919	466,919
General Electric Discount Commercial Paper (Category 1)	149,564	149,564
	\$ 617,456	\$ 617,456

STAR Ohio and Centennial Government Trust are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

4. LAKE COUNTY SCHOOL FINANCING DISTRICT

The Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

4. LAKE COUNTY SCHOOL FINANCING DISTRICT (CONTINUED)

The Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts each of such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being the Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date. The Financing District is presented as a special revenue fund in accordance with Generally Accepted Accounting Principles, but as an Agency Fund for budgeting purposes.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2002. The receivable is offset by a liability to Member Districts.

5. FIXED ASSETS

A summary of changes in the General Fixed Assets Account Group is as follows:

	Balance July 1, <u>2001</u>	<u>Additions</u>	<u>Disposals</u>	Balance June 30, <u>2002</u>
Furniture and equipment	\$ 176,617	\$ 85,540	\$ (400)	\$ 261,757
Vehicles	19,049	--	--	19,049
Equipment under capital lease	<u>18,409</u>	<u>4,382</u>	<u>--</u>	<u>22,791</u>
Total	<u>\$ 214,075</u>	<u>\$ 89,922</u>	<u>\$ (400)</u>	<u>\$ 303,597</u>

6. CAPITALIZED LEASE - EQUIPMENT

The Center has entered into two capitalized leases for the acquisition of copiers. The terms of the agreements provide an option to purchase the equipment. The leases meet the criteria of a capital leases as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee at the conclusion of the lease term.

The following is a schedule of future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2002:

<u>Year Ending June 30</u>	<u>Amount</u>
2003	\$ 5,415
2004	5,415
2005	1,770
2006	1,041
2007	<u>260</u>
Total payments	13,901
Less: amount representing interest	<u>1,468</u>
Present value of minimum lease payments	<u>\$ 12,433</u>

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

7. CHANGE IN GENERAL LONG-TERM DEBT ACCOUNT GROUP

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the General Long-Term Debt Account Group. Compensated absences will be paid from the fund from which the employee is paid.

	Balance at July 1, 2001	Increase/ (Decrease)	Balance at June 30, 2002
Compensated absences payable	\$ 44,475	\$ (6,258)	\$ 38,217
Accrued wages and benefits	28,863	(9,745)	19,118
General obligation debt:			
Capital leases	12,080	353	12,433
Total	<u>\$ 85,418</u>	<u>\$ (15,650)</u>	<u>\$ 69,768</u>

8. COMPENSATED ABSENCES

The criteria for determining vesting vacation and sick leave components is derived from negotiating agreements and state laws. In summary, the components of vesting are as follows:

	<u>Certificated</u>	<u>Administrators</u>	<u>Non-Certificated</u>
<u>Vacation</u>			
How earned	Not eligible unless stated in contract	Per contract	10-25 days depending on length of service after 1 year of service
Maximum Accumulation	Not applicable unless stated in contract	Non-cumulative except superintendent maximum 60 days	Non-cumulative
Vested	Not applicable or as earned	As earned	As earned
Termination Entitlement	Not applicable or paid upon termination	Paid upon termination or separation	Paid upon termination or separation
<u>Sick Leave</u>			
How earned	1-1/4 days per month of employment (15 days per year)	1-1/4 days per month of employment (15 days per year)	1-1/4 days per month of employment (15 days per year)
Maximum Accumulation	180 days	180 days	180 days
Vested	As earned	As earned	As earned
Termination Entitlement	1/4 of accumulated sick leave up to 180 days	1/4 of accumulated sick leave up to 180 days	1/4 of accumulated sick leave up to 180 days

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

LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)

9. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System - The 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. Chapter 3309 of the Ohio Revised Code establishes benefits. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215 or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$ 99,057, \$ 79,942 and \$ 55,357, respectively equal to the required contributions for each year.

State Teachers Retirement System - The 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. Chapter 3307 of the Ohio Revised Code establishes benefits. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The 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.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Center is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation if its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contributions for pension obligation to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$ 449,348, \$ 386,815 and \$ 338,744, respectively equal to the required contributions for each year.

10. POST EMPLOYMENT BENEFITS

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

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

10. POST EMPLOYMENT BENEFITS (CONTINUED)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$ 256,770 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$ 3.256 billion at June 30, 2001. For the year ended June 30, 2002, 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 years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 9.8% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$ 12,400. For the Center, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$ 69,324.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$ 161,439,934 and the target level was \$ 242.2 million. At June 30, 2002, SERS had net assets available for payment to health care benefits of \$ 315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

11. CONTINGENT LIABILITIES

Grants - The Center receives financial assistance from numerous federal, state and local 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 fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2002.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

12. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

13. JOINTLY GOVERNED ORGANIZATIONS

The Lake Geauga Computer Association is a jointly governed organization consisting of 18 school districts in Lake, Geauga and Cuyahoga Counties. 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 as a general member of the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting and designation management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained from Lake Geauga Computer Association, 8140 Auburn Road, Painesville, OH 44077.

The Ohio Schools Council Association (Council) is a jointly governed organization among eight-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2002, the Center paid \$ 500 to the Council. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Independence, OH 44131.

14. CLAIMS SERVICING POOL

The Center participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a claims servicing pool, comprised of eleven members. Each member pays an administrative fee to the pool. The Plan's business and affairs are conducted by a five member Board of Directors elected from the HCBP's assembly. All participating members retain their risk and the Plan acts as the claims servicing agent.

15. OSBA GROUP RATING PROGRAM

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

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

15. OSBA GROUP RATING PROGRAM (CONTINUED)

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participating in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

16. REVENUES

The Lake County Educational Service Center is funded by the State Board of Education from State funds for the cost of part (A) of the budget. Part (B) of the budget is funded \$ 38.50 in the following way: \$ 6.50 times the ADM (total number of pupils under the Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Center provides services from payments made under the State's foundation program. Simultaneously, \$ 32 times the sum of the ADM is paid by the State Board of Education from State funds of the Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$ 38.50 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

The Lake County School Financing District's source of revenue is derived from property taxes. The Lake County Treasurer collects property tax on behalf of all the taxing districts within the County. The County Auditor periodically remits to the taxing districts their portion of the taxes collected.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

17. RISK MANAGEMENT

The Center has elected to provide medical coverage through a self-insured program. The Center uses the general fund to account for and finance its uninsured risks of loss in this program. The claims are serviced through the Lake County Council of Governments Health Care Benefits Program. The Lake County Council of Governments Health Care Benefits Program has stop loss coverage of 110% of expected claims. The claims liability of \$ 76,167 reported in the general fund at June 30, 2002 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount was:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2001	\$ 39,578	\$ 336,422	\$ 308,908	\$ 67,092
2002	\$ 67,092	\$ 387,706	\$ 378,631	\$ 76,167

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

	Governmental Fund Types			Proprietary Fund Type			Account Groups			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Internal Service	General	Fixed Assets	Long-term Debt	General		
\$ 555,574	\$ 303,006	\$ 340,687	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,199,267	
149,743	-	-	-	-	-	-	-	-	149,743	
-	6,151,986	-	-	-	-	-	-	-	6,151,986	
3,056	-	-	-	-	-	-	-	-	3,056	
473,138	35,682	-	-	-	-	-	-	-	508,820	
35,900	-	-	-	-	-	-	-	-	35,900	
-	-	-	-	-	214,075	-	-	-	214,075	
-	-	-	-	-	-	-	85,418	-	85,418	
<u>\$ 1,217,411</u>	<u>\$ 6,490,674</u>	<u>\$ 340,687</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,075</u>	<u>\$ 85,418</u>	<u>\$ 85,418</u>	<u>\$ 8,348,265</u>		

ASSETS AND OTHER DEBITS:

Assets:
Equity in pooled cash and investments
Cash with fiscal agent
Receivables:
Taxes
Accounts
Intergovernmental
Due from other funds
Fixed assets
Other Debits:
Amount to be provided for retirement
of general long-term debt

Total assets and other debits

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

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2001**

	Governmental Fund Types			Proprietary Fund Type			Account Groups			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Internal Service	General		Long-term Debt			
					Fixed Assets					
LIABILITIES, FUND EQUITY AND OTHER CREDITS:										
Liabilities:										
Accounts payable	\$ 3,864	\$ 2,652	\$ 29,146	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,662
Intergovernmental payable	-	6,187,668	-	-	-	-	-	-	-	6,187,668
Due to other funds	-	35,805	-	95	-	-	-	-	-	35,900
Accrued wages and benefits	373,984	43,229	-	-	-	-	28,863	-	-	446,076
Claims payable	67,092	-	-	-	-	-	-	-	-	67,092
Compensated absences payable	-	-	-	-	-	-	44,475	-	-	44,475
Capital lease obligations	-	-	-	-	-	-	12,080	-	-	12,080
Total liabilities	444,940	6,269,354	29,146	95	-	-	85,418	-	-	6,828,953
Fund Equity and Other Credits:										
Investment in general fixed assets	-	-	-	-	214,075	-	-	-	-	214,075
Fund balances:										
Reserved for encumbrances	15,966	14,697	185,577	-	-	-	-	-	-	216,240
Unreserved, undesignated	756,505	206,623	125,964	(95)	-	-	-	-	-	1,088,997
Total fund equity and other credits	772,471	221,320	311,541	(95)	214,075	-	-	-	-	1,519,312
Total liabilities, fund equity and other credits	\$ 1,217,411	\$ 6,490,674	\$ 340,687	\$ -	\$ 214,075	\$ 85,418	\$ -	\$ -	\$ -	\$ 8,348,265

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

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

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
REVENUES:				
Revenue from local sources:				
Taxes	\$ -	\$ 6,007,990	\$ -	\$ 6,007,990
Tuition	489,482	7,775	-	497,257
Earnings on investments	64,512	1,917	-	66,429
Revenue from state sources:				
Unrestricted grants-in-aid	2,571,862	465,719	-	3,037,581
Restricted grants-in-aid	15,000	522,851	575,050	1,112,901
Revenue from federal sources:				
Restricted grants-in-aid	-	127,518	-	127,518
Charge for Services	925,431	-	-	925,431
Miscellaneous	-	70,557	-	70,557
Total revenue	<u>4,066,287</u>	<u>7,204,327</u>	<u>575,050</u>	<u>11,845,664</u>
EXPENDITURES:				
Instruction:				
Regular	31,258	453,220	186,652	671,130
Special	703,025	36,638	-	739,663
Vocational education	224,904	-	-	224,904
Other	-	160	-	160
Supporting services:				
Pupils	835,799	38,004	-	873,803
Instructional staff	1,145,599	206,325	72,557	1,424,481
Board of Education	30,932	6,484,571	-	6,515,503
Administration	845,250	88,476	-	933,726
Fiscal services	159,308	9,909	-	169,217
Operation and maintenance - plant	101,467	320	4,300	106,087
Pupil transportation	16,240	20,942	-	37,182
Central	191,949	2,823	-	194,772
Operation of non-instructional services:				
Food services	-	5,578	-	5,578
Extracurricular activities:				
Academic and subject-oriented activities	907	-	-	907
Facility acquisition and construction services:				
Architecture and engineering	(13,279)	-	-	(13,279)
Total expenditures	<u>4,273,359</u>	<u>7,346,966</u>	<u>263,509</u>	<u>11,883,834</u>
Excess (deficiency) of revenues over (under) expenditures	(207,072)	(142,639)	311,541	(38,170)
BEGINNING FUND BALANCE	<u>979,543</u>	<u>363,959</u>	<u>-</u>	<u>1,343,502</u>
ENDING FUND BALANCE	<u>\$ 772,471</u>	<u>\$ 221,320</u>	<u>\$ 311,541</u>	<u>\$ 1,305,332</u>

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

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

	General Fund			Special Revenue Fund			Capital Projects Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES												
Tuition	\$ 282,600	\$ 232,804	\$ (49,796)	\$ 7,775	\$ 7,775	\$ -	\$ -	\$ -	\$ -	\$ 290,375	\$ 240,579	\$ (49,796)
Earnings on investments	55,000	64,512	9,512	1,800	1,917	117	-	-	-	56,800	66,429	9,629
Miscellaneous	1,236,950	1,189,813	(47,137)	69,121	69,146	25	-	-	-	1,306,071	1,258,959	(47,112)
Extracurricular activities	-	-	-	1,411	1,411	-	-	-	-	1,411	1,411	-
Revenue from intermediate sources - restricted	-	-	-	69,892	69,892	-	50	50	-	69,942	69,942	-
Revenue from state sources - unrestricted	2,570,869	2,571,862	993	-	-	-	-	-	-	2,570,869	2,571,862	993
Revenue from state sources - restricted	-	-	-	553,439	458,439	(95,000)	575,000	575,000	-	1,128,439	1,033,439	(95,000)
Revenue from federal sources - restricted	-	-	-	135,563	127,518	(8,045)	-	-	-	135,563	127,518	(8,045)
Total revenues	4,145,419	4,058,991	(86,428)	839,001	736,098	(102,903)	575,050	575,050	-	5,559,470	5,370,139	(189,331)
EXPENDITURES												
Current												
Instruction:												
Regular	24,953	24,953	-	483,981	452,775	(31,206)	372,179	372,179	-	881,113	849,907	(31,206)
Special	670,423	670,402	21	-	-	-	-	-	-	670,423	670,402	21
Vocational	225,954	225,753	201	41,414	36,850	(4,564)	-	-	-	267,368	262,603	(4,765)
Support services:												
Pupil	814,548	813,013	1,535	55,959	39,698	(16,261)	-	-	-	870,507	852,711	(17,796)
Instructional staff	1,131,166	1,106,552	24,614	261,338	220,223	(41,115)	72,797	72,607	190	1,465,301	1,399,382	(65,919)
Board of Education	43,037	43,037	-	12,283	12,283	-	-	-	-	55,320	55,320	-
Administration	839,989	837,397	2,592	123,784	88,187	(35,597)	-	-	-	963,773	925,584	(38,189)
Fiscal	158,420	158,420	-	10,009	9,909	(100)	-	-	-	168,429	168,329	(100)
Operation and maintenance of plant	85,185	85,185	-	320	320	-	4,300	4,300	-	89,805	89,805	-
Pupil transportation	26,007	26,007	-	25,546	24,011	(1,535)	-	-	-	51,553	50,018	(1,535)
Central	194,668	194,668	-	4,835	2,973	(1,862)	-	-	-	199,503	197,641	(1,862)
Non-instructional services:												
Food service	-	-	-	6,673	5,578	(1,095)	-	-	-	6,673	5,578	(1,095)
Extracurricular activities:												
Academic and subject-oriented activities	907	907	-	-	-	-	-	-	-	907	907	-
Total expenditures	4,215,257	4,186,294	28,963	1,026,142	892,807	(133,335)	449,276	449,086	190	5,690,675	5,528,187	(162,488)
Excess (deficiency) of revenue over (under) expenditures	(69,838)	(127,303)	(57,465)	(187,141)	(156,709)	(30,432)	125,774	125,964	190	(131,205)	(158,048)	(26,843)
OTHER FINANCING SOURCES (USES)												
Advances in	-	-	-	-	35,805	35,805	-	-	-	-	35,805	35,805
Advances out	(35,900)	(35,900)	-	-	-	-	-	-	-	(35,900)	(35,900)	-
Refund of prior year expenditures	13,000	13,279	279	-	-	-	13,279	13,279	-	13,000	279	279
Total other financing uses	(22,900)	(22,621)	279	-	35,805	35,805	-	-	-	(22,900)	13,184	36,084
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(92,738)	(149,924)	(57,186)	(187,141)	(120,904)	(66,237)	125,774	125,964	190	(154,105)	(144,864)	(9,241)
FUND BALANCES - BEGINNING OF YEAR	646,254	646,254	-	335,545	335,545	-	-	-	-	981,799	981,799	-
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	42,817	42,817	-	71,828	71,828	-	-	-	-	114,645	114,645	-
FUND BALANCES - END OF YEAR	596,333	539,147	(57,186)	220,232	286,469	66,237	125,774	125,964	190	942,339	951,580	9,241

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

LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	Internal Service Fund
OPERATING REVENUES	
Extracurricular activities	<u>\$ 6,047</u>
OPERATING EXPENSES	
Purchased services	2,972
Operation and maintenance	<u>3,170</u>
Total operating expenses	<u>6,142</u>
Operating loss	(95)
BEGINNING RETAINED EARNINGS	<u>-</u>
ENDING RETAINED EARNINGS	<u><u>\$ (95)</u></u>

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

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	Internal Service Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Extracurricular activities	\$ 7,310	\$ 6,047	\$ (1,263)
OPERATING EXPENSES			
Contractual services	2,972	2,972	-
Operation and maintenance	3,170	3,170	-
Total operating expenses	6,142	6,142	-
Operating income (loss)	1,168	(95)	(1,263)
NON-OPERATING REVENUE			
Advances in	-	95	95
Net income	1,168	-	(1,168)
FUND EQUITY - BEGINNING OF YEAR	-	-	-
PRIOR YEAR ENCUMBRANCES - APPROPRIATED	-	-	-
FUND EQUITY - END OF YEAR	<u>\$ 1,168</u>	<u>\$ -</u>	<u>\$ (1,168)</u>

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

LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating loss	\$ (95)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net increase in liabilities:	
Interfund payable	95
Net cash provided by operating activities	-
Net increase in cash and cash equivalents	-
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	-
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ -

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

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**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

1. DESCRIPTION OF THE DISTRICT

The Lake County Educational Service Center (the "Center"), formerly the Lake County Board of Education, is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a local county school district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the Center.

The Center is located in Lake County. The Center serves five local school districts: Painesville Township Local School District, Painesville City Local School District, Kirtland Local School District, Madison Local School District and Perry Local School District.

The Center employed 69 certificated employees and 24 non-certificated employees.

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. FINANCIAL REPORTING ENTITY

The Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The financial statements include all the organizations, activities, functions and component units for which the Center (Primary Government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the Center's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center.

On this basis, the financial statements of the Lake County School Financing District have been included in the accompanying general-purpose financial statements as a blended component unit. The Financing District is legally separate, but governed by the same board; therefore, the Center has the ability to impose its will over the Financing District. The Center acts as the fiscal agent for the Lake County School Financing District.

The Center is associated with four organizations, two jointly governed organizations, one claims servicing pool, and one insurance purchasing pool. These organizations are the Lake Geauga Computer Association, Ohio Schools Council Association, the Lake County Schools Council of Governments' Health Care Benefits Program and the Ohio School Boards Association Workers' Compensation Group Rating Plan. Information about these organizations is discussed in Notes 13, 14, and 15 to the general-purpose financial statements.

b. BASIS OF PRESENTATION

The accounting policies of the Center conform to generally accepted accounting principles (GAAP) as applicable to governments.

The financial transactions of the Center are recorded in individual funds and account groups. The various funds and account groups are reported by type in the general-purpose financial statements. Amounts in the "totals - memorandum only" columns in the general-purpose financial statements represent a summation of the combined financial statement line items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, interfund transactions that have not been eliminated, and the caption "amounts to be provided", which does not represent an asset. Consequently, amounts shown in the "totals - memorandum only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the Center.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. BASIS OF PRESENTATION (CONTINUED)

The Center uses the following fund categories, fund types and account groups:

Governmental Fund Types

Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during a period.

General Fund - The general operating fund of the Center is used to account for all revenues and expenditures except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for revenue from specific sources (other than major capital projects) which require separate accounting because of legal restrictions requiring that expenditures be for specified purposes.

Capital Projects Fund – Capital projects fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Type

Proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund measurement focus is based upon determination of net income, financial position and cash flows.

Internal Service Funds – Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

Account Groups

Account groups are used to establish accounting control and accountability for the Center's general fixed assets and general long-term debt.

General Fixed Assets - General fixed assets are used to account for capital assets used in general government operations with a useful life of greater than one year.

General Long-Term Debt - General long-term debt is used to account for all long-term obligations of the Center, except for those accounted for in Proprietary Funds. These obligations are secured by the credit of the Center as a whole and are payable from general government resources.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
(JUNE 30, 2001
(CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. BASIS OF ACCOUNTING

Governmental Fund Types are accounted for on the modified accrual basis of accounting. Governmental revenues are recognized when they become measurable and available to finance expenditures of the current period. Revenue items, which are susceptible to accrual and therefore are recorded as receivables, include property taxes, tuitions/excess cost, tuitions and reimbursable-type grants. Expenditures are recognized when the related fund liability is incurred, with the exception of accumulated unpaid employee compensation, which is not payable from current expendable financial resources.

Proprietary Fund Types are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There was no unbilled service charges receivable at year end.

Revenue Recognition Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Center, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 4) 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 Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", the Center follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

d. BUDGETARY BASIS OF ACCOUNTING

Based on the requirements of Section 3317.11, Ohio Revised Code, the budgetary process described below applies specifically to the Lake County Educational Service Center and is not applicable to the Lake County School Financing District.

The Center is required by State statute to adopt an annual appropriation budget for all fund types except agency funds. The specific timetable is as follows:

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

In June, the Treasurer submits to the Board of Education a temporary proposed operating budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing for all funds. In October, the Board adopts a permanent budget. Annually, on or before a date designated by the State Board of Education, the board-adopted budget is filed with the Ohio Department of Education using special Form SF5. Prior to June 30, the Board must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Estimated Resources. The budget may be further amended during the year if projected increases or decreases in revenue are identified by the Board Treasurer.

By the June Board meeting, the temporary annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as approved by the Board and the total of expenditures and encumbrances may not exceed the appropriation totals. 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 Board of Education.

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds are completed in the year within the amount of their legally authorized appropriation.

Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during fiscal 2000-2001.

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

The Center's budgetary process accounts for certain transactions on a basis, which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.
2. Expenditures are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is susceptible to accrual for GAAP purposes.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

An analysis of the difference in fund balance for all governmental fund types at June 30, 2001 as determined under the GAAP basis and budget basis follows:

	General Fund	Special Revenue Fund	Capital Projects Fund	Internal Service Fund
GAAP basis - fund balance	\$ 772,471	\$ 221,320	\$ 311,541	\$ (95)
Reclassification	--	(1,260)	--	--
Accrued revenue/prepaid expenses at June 30, 2001	(661,837)	(6,187,668)	--	--
Accrued expenditures/deferred revenue at June 30, 2001	444,940	6,269,354	29,146	95
Encumbrances outstanding at June 30, 2001 (budget basis)	<u>(16,427)</u>	<u>(15,277)</u>	<u>(214,723)</u>	--
Budget-basis fund balance	<u>\$ 539,147</u>	<u>\$ 286,469</u>	<u>\$ 125,964</u>	<u>\$ --</u>

Based on the requirements of Chapter 5705, Revised Code, the budgetary process described below applies specifically to the Lake County School Financing District, and is not applicable to the Lake County Educational Service Center. The Lake County School Financing District is an agency fund on the budgetary basis.

e. BUDGET

A budget of estimated cash receipts and disbursements is submitted to the county auditor, as secretary of the county budget commission, by January 20 of each year, for the following July 1 to June 30 fiscal year.

f. ESTIMATED RESOURCES

The county budget commission certifies its actions to the Center by March 1. As part of this certification, the Center receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the Center must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying general-purpose financial statements do not include July 1, 2000 unencumbered fund balances. However, those fund balances are available for appropriations.

g. APPROPRIATIONS

By the June Board meeting, the temporary annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as approved by the Board and the total of expenditures and encumbrances may not exceed the appropriation totals. 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 Board of Education.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. APPROPRIATIONS (CONTINUED)

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds are completed in the year within the amount of their legally authorized appropriation.

Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during fiscal 2000-2001.

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

h. ENCUMBRANCES

The Center is required to use the encumbrance method of accounting by virtue of Ohio law. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control. Encumbrances are reported as a reservation of fund balance in all Governmental Fund Types.

i. CASH AND CASH EQUIVALENTS

To improve cash management, cash received by the Center is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through Center records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the combined balance sheet.

During fiscal year 2001, investments were limited to STAR Ohio, the State Treasurer's Investment Pool, and mutual funds. All investments of the Center had a maturity of two years or less. Investments are reported at fair value, which is based on quoted market prices.

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

Following Ohio statutes, the Center has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$ 64,512.

j. FIXED ASSETS AND DEPRECIATION

General Fixed Assets Account Group - General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The Center follows the policy of not capitalizing assets with a cost of less than \$ 500 and a useful life of less than one year. No depreciation is recognized for assets in the General Fixed Assets Account Group.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

2. DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. INTERFUND TRANSACTIONS

During the course of normal operations, the Center has numerous transactions between funds, including expenditures and transfers of resources to provide services and improve assets. Operating subsidies are recorded as operating transfers. The classification of amounts recorded as subsidies, advances or equity contributions is based on the intent of the Center at the time of the transaction.

I. FUND BALANCE RESERVES

Reserved fund balances indicate that a portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances. The unreserved portions of fund equity reflected for the Governmental Fund Types are available for use within the specific purposes of those funds.

3. EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the Center into three categories.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

2. Bonds, notes, debentures or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Bank, Federal Farm Credit Bank, Federal Home Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must 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;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain banker's acceptance 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 monies available for investment at any one time.

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 Center, and must be purchased with the expectation that it will be held until maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be paid only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At June 30, 2001, the Center's general fund had a balance of \$ 149,743 with Lake County Council of Governments Health Care Benefits Program, a claims servicing pool (See Note 14). The money is held by the claims servicer in a pooled account which is representative of numerous entities and, therefore, cannot be classified by risk under GASB No. 3. The classification of cash and cash equivalents and investments for the Lake County Council of Governments Health Care Benefits Program Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Mentor Exempted Village School District. To obtain financial information, write to Mr. James Metz, Mentor Exempted Village School District, 6451 Center Street, Mentor, Ohio 44060.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement No. 3.

Deposits - At fiscal year end, the carrying amount of the Center's deposits was \$ 52,652 and the bank balance was \$ 116,983. \$ 100,000 of the bank balance was covered by federal depository insurance. \$ 16,983 was uninsured but collateralized with securities held by an agent but not in the Center's name. Although any securities serving as collateral were held by the pledging financial institutions' trust department or agent not in the Center's name and all state statutory requirements for the deposit of money have been followed, noncompliance with federal requirements would potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments - Investments made by the Center as of June 30, 2001 are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1 Insured or registered, with investments held by the Center or its agents in the Center's name.
- Category 2 Uninsured and unregistered, with investments held by the counterparty's trust department or agent in the Center's name.
- Category 3 Uninsured and unregistered, with investments held by the counterparty, or by its trust department or agent but not in the Center's name.

	Carrying Value	Fair Value
Government money fund (Category 2)	\$ 309,123	\$ 309,123
STAR Ohio	837,492	837,492
	\$ 1,146,615	\$ 1,146,615

STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

4. LAKE COUNTY SCHOOL FINANCING DISTRICT

The Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

4. LAKE COUNTY SCHOOL FINANCING DISTRICT (CONTINUED)

The Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts each of such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being the Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date. The Financing District is presented as a special revenue fund in accordance with Generally Accepted Accounting Principles, but as an Agency Fund for budgeting purposes.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2001. The receivable is offset by a liability to Member Districts.

5. FIXED ASSETS

A summary of changes in the General Fixed Assets Account Group is as follows:

	Balance July 1, <u>2000</u>	<u>Additions</u>	<u>Disposals</u>	Balance June 30, <u>2001</u>
Furniture and equipment	\$ 161,138	\$ 15,979	\$ (500)	\$ 176,617
Vehicles	19,049	--	--	19,049
Equipment under capital lease	<u>18,409</u>	<u>--</u>	<u>--</u>	<u>18,409</u>
Total	<u>\$ 198,596</u>	<u>\$ 15,979</u>	<u>\$ (500)</u>	<u>\$ 214,075</u>

6. CAPITALIZED LEASE - EQUIPMENT

The Center has entered into a capitalized lease for the acquisition of a copier. The terms of the agreement provide an option to purchase the equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No, 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee at the conclusion of the lease term.

The following is a schedule of future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2001:

<u>Year Ending June 30</u>	<u>Amount</u>
2002	\$ 4,374
2003	4,374
2008	4,374
2005	<u>729</u>
Total payments	13,851
Less: amount representing interest	<u>1,771</u>
Present value of minimum lease payments	<u>\$ 12,080</u>

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

7. CHANGE IN GENERAL LONG-TERM DEBT ACCOUNT GROUP

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the General Long-Term Debt Account Group. Compensated absences will be paid from the fund from which the employee is paid.

	Balance at July 1, 2000	Increase/ (Decrease)	Balance at June 30, 2001
Compensated absences payable	\$ 50,092	\$ (5,617)	\$ 44,475
Accrued wages and benefits	11,935	16,928	28,863
General obligation debt:			
Capital leases	15,260	(3,180)	12,080
Total	<u>\$ 77,287</u>	<u>\$ 8,131</u>	<u>\$ 85,418</u>

8. COMPENSATED ABSENCES

The criteria for determining vesting vacation and sick leave components is derived from negotiating agreements and state laws. In summary, the components of vesting are as follows:

<u>Vacation</u>	<u>Certificated</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How earned	Not eligible unless stated in contract	Per contract	10-25 days depending on length of service after 1 year of service
Maximum Accumulation	Not applicable unless stated in contract	Non-cumulative except superintendent maximum 60 days	Non-cumulative
Vested	Not applicable or as earned	As earned	As earned
Termination Entitlement	Not applicable or paid upon termination	Paid upon termination or separation	Paid upon termination or separation
 <u>Sick Leave</u>			
How earned	1-1/4 days per month of employment (15 days per year)	1-1/4 days per month of employment (15 days per year)	1-1/4 days per month of employment (15 days per year)
Maximum Accumulation	180 days	180 days	180 days
Vested	As earned	As earned	As earned
Termination Entitlement	1/4 of accumulated sick leave up to 180 days	1/4 of accumulated sick leave up to 180 days	1/4 of accumulated sick leave up to 180 days

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

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

9. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System - The 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. Chapter 3309 of the Ohio Revised Code establishes benefits. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215 or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$ 79,942, \$ 55,357 and \$ 44,558, respectively equal to the required contributions for each year.

State Teachers Retirement System - The 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. Chapter 3307 of the Ohio Revised Code establishes benefits. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The 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.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Center is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation if its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contributions for pension obligation to STRS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$ 386,815, \$ 338,744 and \$ 314,242, respectively equal to the required contributions for each year.

10. POST EMPLOYMENT BENEFITS

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

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

10. POST EMPLOYMENT BENEFITS (CONTINUED)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$ 219,121 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$ 3.256 billion 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 years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay was established at \$ 12,400. For the Center, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$ 55,963.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$ 161,439,934 and the target level was \$ 242.2 million. At June 30, 2001, SERS had net assets available for payment to health care benefits of \$ 315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

11. CONTINGENT LIABILITIES

Grants - The Center receives financial assistance from numerous federal, state and local 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 fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2001.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

12. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

13. JOINTLY GOVERNED ORGANIZATIONS

The Lake Geauga Computer Association is a jointly governed organization consisting of 18 school districts in Lake, Geauga and Cuyahoga Counties. 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 as a general member of the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designation management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained from Lake Geauga Computer Association, 8140 Auburn Road, Painesville, OH 44077.

The Ohio Schools Council Association (Council) is a jointly governed organization among eight-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2001, the Center paid \$ 500 to the Council. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Independence, OH 44131.

14. CLAIMS SERVICING POOL

The Center participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a claims servicing pool, comprised of eleven members. Each member pays an administrative fee to the pool. The Plan's business and affairs are conducted by a five member Board of Directors elected from the HCBP's assembly. All participating members retain their risk and the Plan acts as the claims servicing agent.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

15. OSBA GROUP RATING PROGRAM

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

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participating in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

16. REVENUES

The Lake County Educational Service Center is funded by the State Board of Education from State funds for the cost of part (A) of the budget. Part (B) of the budget is funded \$ 38.50 in the following way: \$ 6.50 times the ADM (total number of pupils under the Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Center provides services from payments made under the State's foundation program. Simultaneously, \$ 32 times the sum of the ADM is paid by the State Board of Education from State funds of the Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$ 38.50 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

The Lake County School Financing District's source of revenue is derived from property taxes. The Lake County Treasurer collects property tax on behalf of all the taxing districts within the County. The County Auditor periodically remits to the taxing districts their portion of the taxes collected.

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
LAKE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)**

17. RISK MANAGEMENT

The Center has elected to provide medical coverage through a self-insured program. The Center uses the general fund to account for and finance its uninsured risks of loss in this program. The claims are serviced through the Lake County Council of Governments Health Care Benefits Program. The Lake County Council of Governments Health Care Benefits Program has stop loss coverage of 110% of expected claims. The claims liability of \$ 67,092 reported in the general fund at June 30, 2001 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount was:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2000	\$ 35,607	\$ 255,876	\$ 251,905	\$ 39,578
2001	\$ 39,578	\$ 336,422	\$ 308,908	\$ 67,092



**Auditor of State
Betty Montgomery**

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

Lake County Educational Service Center
Lake County
30 South Park Place
Suite 320
Painesville, Ohio 44077

To the Members of the Board:

We have audited the general-purpose financial statements of the Lake County Educational Service Center, Lake County, Ohio, (the Center), as of and for the years ended June 30, 2002 and June 30, 2001, and have issued our report thereon dated July 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a matter involving compliance that does not require inclusion in this report, that we have reported to management of the Center in a separate letter dated July 30, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Center in a separate letter dated July 30, 2003.

Lake County Educational Service Center
Lake County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 30, 2003



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

LAKE COUNTY EDUCATIONAL SERVICE CENTER

LAKE 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
OCTOBER 2, 2003**