

**EDUCATIONAL SERVICE  
CENTER OF PORTAGE  
COUNTY**

\* \* \*

*General Purpose Financial Statements*

*Year Ended June 30, 2003*





**Auditor of State  
Betty Montgomery**

Board of Education  
Educational Service Center of Portage County  
224 West Riddle Avenue  
Ravenna, Ohio 44266

We have reviewed the Independent Auditor's Report of the Educational Service Center of Portage County prepared by Rea & Associates, Inc., for the audit period July 1, 2002 to June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

March 15, 2005

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**EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY**

*For the Year Ended June 30, 2003*

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 27, 2005

The Board of Education  
Educational Service Center of Portage County  
Ravenna, Ohio 44266

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general purpose financial statements of the Educational Service Center of Portage County as of and for the year ended June 30, 2003 as listed in the table of contents. These general purpose financial statements are the responsibility of the Educational Service 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center of Portage County as of June 30, 2003 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2005, on our consideration of the Educational Service Center of Portage County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This 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.

*Rea & Associates, Inc.*

**EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY**

*Combined Balance Sheet*

**All Fund Types and Account Groups**

**June 30, 2003**

**Governmental Type Funds**

	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
<b><u>Assets and Other Debits</u></b>			
<b><u>Assets</u></b>			
Cash and Cash Equivalents - Unrestricted	\$ 672,057	\$ 89,151	\$ 47
Receivables:			
Accounts	8,237	0	0
Interfund	13,716	0	0
Intergovernmental Receivable	1,132,648	13,716	0
Prepaid Items	6,822	0	0
Materials and Supplies Inventory	7,260	0	0
Fixed Assets	0	0	0
<b><u>Other Debits</u></b>			
Amount to be Provided From Government Resources	0	0	0
<b>Total Assets and Other Debits</b>	<b>\$ 1,840,740</b>	<b>\$ 102,867</b>	<b>\$ 47</b>
<b><u>Liabilities, Fund Equity, and Other Credits</u></b>			
<b><u>Liabilities</u></b>			
Accrued Wages and Benefits	\$ 352,551	\$ 4,891	\$ 0
Compensated Absences Payable	0	0	0
Interfund Payable	0	13,716	0
Intergovernmental Payable	35,809	662	0
Deferred Revenue	1,109,104	13,716	0
Undistributed Monies	0	0	0
Claims Payable	0	0	0
<b>Total Liabilities</b>	<b>1,497,464</b>	<b>32,985</b>	<b>0</b>
<b><u>Fund Equity and Other Credits</u></b>			
Investment in General Fixed Assets	0	0	0
Fund Balance:			
Reserved for Encumbrances	111,912	17,274	0
Reserved for Inventory	7,260	0	0
Reserved for Prepaid Items	6,822	0	0
Unreserved:			
Undesignated	217,282	52,608	47
<b>Total Fund Equity and Other Credits</b>	<b>343,276</b>	<b>69,882</b>	<b>47</b>
<b>Total Liabilities, Fund Equity, and Other Credits</b>	<b>\$ 1,840,740</b>	<b>\$ 102,867</b>	<b>\$ 47</b>

See accompanying notes to the general purpose financial statements.



Fiduciary Fund Types		Account Groups			Totals
Expendable Trust Fund	Agency	General Fixed Assets	General Long-Term Obligations	(Memorandum Only)	
\$ 3,000	\$ 2,598,906	\$ 0	\$ 0	\$ 3,363,161	
0	0	0	0	8,237	
0	0	0	0	13,716	
0	0	0	0	1,146,364	
0	3,189	0	0	10,011	
0	0	0	0	7,260	
0	0	400,301	0	400,301	
0	0	0	127,157	127,157	
\$ 3,000	\$ 2,602,095	\$ 400,301	\$ 127,157	\$ 5,076,207	

\$ 0	\$ 0	\$ 0	\$ 0	\$ 357,442
0	0	0	113,220	113,220
0	0	0	0	13,716
0	0	0	13,937	50,408
0	0	0	0	1,122,820
0	25,761	0	0	25,761
0	2,576,334	0	0	2,576,334
0	2,602,095	0	127,157	4,259,701
0	0	400,301	0	400,301
0	0	0	0	129,186
0	0	0	0	7,260
0	0	0	0	6,822
3,000	0	0	0	272,937
3,000	0	400,301	0	816,506
\$ 3,000	\$ 2,602,095	\$ 400,301	\$ 127,157	\$ 5,076,207

**EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY**

*Combined Statement of Revenues, Expenditures,  
and Changes in Fund Balances*

**All Governmental Fund Types and Expendable Trust Funds**

For the Year Ended June 30, 2003

	Governmental Fund Type			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
<b>Revenues</b>					
Intergovernmental	\$ 1,292,434	\$ 168,716	\$ 0	\$ 0	\$ 1,461,150
Investment Income	7,202	0	0	0	7,202
Tuition and Fees	3,192,023	0	0	0	3,192,023
Miscellaneous	489,903	68,865	0	0	558,768
<b>Total Revenues</b>	<b>4,981,562</b>	<b>237,581</b>	<b>0</b>	<b>0</b>	<b>5,219,143</b>
<b>Expenditures</b>					
Current:					
Instruction					
Regular	137,381	53,910	0	0	191,291
Special	1,785,164	27,469	0	0	1,812,633
Other	71,477	1,151	0	0	72,628
Support Services					
Pupils	530,833	1,882	3,063	0	535,778
Instructional Staff	2,037,267	114,623	1,945	0	2,153,835
Board of Education	27,034	0	0	0	27,034
Administration	464,731	250	0	0	464,981
Fiscal	158,419	8,400	0	0	166,819
Business	18,906	0	0	0	18,906
Operation and Maintenance of Plant	47,648	0	0	0	47,648
Pupil Transportation	13,334	11,580	0	0	24,914
Central	34,620	3,268	0	0	37,888
Operation of Non-Instructional Services	403	0	0	18,000	18,403
Extracurricular Activities	12,488	0	0	0	12,488
<b>Total Expenditures</b>	<b>5,339,705</b>	<b>222,533</b>	<b>5,008</b>	<b>18,000</b>	<b>5,585,246</b>
Excess of Revenues Over (Under) Expenditures	(358,143)	15,048	(5,008)	(18,000)	(366,103)
Fund Balance at Beginning Of Year	698,580	54,834	5,055	21,000	779,469
Increase in Reserve for Inventory	2,839	0	0	0	2,839
<b>Fund Balance at End of Year</b>	<b>\$ 343,276</b>	<b>\$ 69,882</b>	<b>\$ 47</b>	<b>\$ 3,000</b>	<b>\$ 416,205</b>

See accompanying notes to the general purpose financial statements.

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**EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY**

*Combined Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Budget and Actual*

**All Governmental Fund Types and Expendable Trust Funds**

(Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2003

<b>GENERAL FUND</b>			
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Intergovernmental	\$ 1,852,607	\$ 1,382,714	\$ (469,893)
Customer Services	1,510,041	449,181	(1,060,860)
Investment Income	15,000	7,202	(7,798)
Tuition and Fees	1,680,000	3,192,023	1,512,023
Miscellaneous	38,420	32,485	(5,935)
<b>Total Revenues</b>	<b>5,096,068</b>	<b>5,063,605</b>	<b>(32,463)</b>
<b>Expenditures</b>			
<b>Current:</b>			
Instruction	2,198,954	1,969,335	229,619
Support Services			
Pupils	573,814	516,221	57,593
Instructional Staff	2,284,902	2,100,011	184,891
Board of Education	47,658	31,535	16,123
Administration	520,243	471,185	49,058
Fiscal	167,834	158,736	9,098
Business	20,960	18,912	2,048
Operation and Maintenance of Plant	49,905	48,592	1,313
Pupil Transportation	13,880	13,334	546
Central	69,671	34,559	35,112
Operation of Non-Instructional Services	800	403	397
Extracurricular Activities	27,086	12,488	14,598
<b>Total Expenditures</b>	<b>5,975,707</b>	<b>5,375,311</b>	<b>600,396</b>
Excess of Revenues Over (Under) Expenditures	(879,639)	(311,706)	567,933
<b>Other Financing Sources (Uses)</b>			
Refund of Prior Year Expenditures	15,000	19,039	4,039
Refund of Prior Year Receipts	(100)	0	100
Advances In	17,500	17,500	0
Advances Out	(19,062)	(13,716)	5,346
<b>Total Other Financing Sources (Uses)</b>	<b>13,338</b>	<b>22,823</b>	<b>9,485</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(866,301)	(288,883)	577,418
Fund Balance at Beginning of Year	773,458	773,458	0
Prior Year Encumbrances Appropriated	75,044	75,044	0
<b>Fund Balance (Deficit) at End of Year</b>	<b>\$ (17,799)</b>	<b>\$ 559,619</b>	<b>\$ 577,418</b>

See accompanying notes to the general purpose financial statements.

SPECIAL REVENUE FUND			CAPITAL PROJECTS FUND		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 208,281	\$ 194,565	\$ (13,716)	\$ 0	\$ 0	\$ 0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
68,865	68,865	0	0	0	0
277,146	263,430	(13,716)	0	0	0
101,716	91,386	10,330	0	0	0
2,094	1,799	295	0	0	0
163,642	124,538	39,104	1,992	1,945	47
0	0	0	0	0	0
296	250	46	0	0	0
8,400	8,400	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
11,846	11,580	266	0	0	0
26,859	3,268	23,591	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
314,853	241,221	73,632	1,992	1,945	47
(37,707)	22,209	59,916	(1,992)	(1,945)	47
0	0	0	0	0	0
0	0	0	0	0	0
0	13,716	13,716	0	0	0
(17,500)	(17,500)	0	0	0	0
(17,500)	(3,784)	13,716	0	0	0
(55,207)	18,425	73,632	(1,992)	(1,945)	47
46,210	46,210	0	37	37	0
7,238	7,238	0	1,955	1,955	0
\$ (1,759)	\$ 71,873	\$ 73,632	\$ 0	\$ 47	\$ 47

(continued)

**EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY**

*Combined Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Budget and Actual*

**All Governmental Fund Types and Expendable Trust Funds (continued)**

(Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2003

<b>EXPENDABLE TRUST FUND</b>			
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Intergovernmental	\$ 0	\$ 0	\$ 0
Customer Services	0	0	0
Investment Income	0	0	0
Tuition and Fees	0	0	0
Miscellaneous	0	0	0
<b>Total Revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Expenditures</b>			
<b>Current:</b>			
Instruction	0	0	0
Support Services			
Pupils	0	0	0
Instructional Staff	0	0	0
Board of Education	0	0	0
Administration	0	0	0
Fiscal	0	0	0
Business	0	0	0
Operation and Maintenance of Plant	0	0	0
Pupil Transportation	0	0	0
Central	0	0	0
Operation of Non-Instructional Services	21,000	20,000	1,000
Extracurricular Activities	0	0	0
<b>Total Expenditures</b>	<b>21,000</b>	<b>20,000</b>	<b>1,000</b>
Excess of Revenues Over (Under) Expenditures	(21,000)	(20,000)	1,000
<b>Other Financing Sources (Uses)</b>			
Refund of Prior Year Expenditures	0	2,000	2,000
Refund of Prior Year Receipts	0	0	0
Advances In	0	0	0
Advances Out	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>2,000</b>	<b>2,000</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(21,000)	(18,000)	3,000
Fund Balance at Beginning of Year	21,000	21,000	0
Prior Year Encumbrances Appropriated	0	0	0
<b>Fund Balance (Deficit) at End of Year</b>	<b>\$ 0</b>	<b>\$ 3,000</b>	<b>\$ 3,000</b>

See accompanying notes to the general purpose financial statements.

**TOTALS**  
**(MEMORANDUM ONLY)**

<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
\$ 2,060,888	\$ 1,577,279	\$ (483,609)
1,510,041	449,181	(1,060,860)
15,000	7,202	(7,798)
1,680,000	3,192,023	1,512,023
107,285	101,350	(5,935)
<u>5,373,214</u>	<u>5,327,035</u>	<u>(46,179)</u>
2,300,670	2,060,721	239,949
575,908	518,020	57,888
2,450,536	2,226,494	224,042
47,658	31,535	16,123
520,539	471,435	49,104
176,234	167,136	9,098
20,960	18,912	2,048
49,905	48,592	1,313
25,726	24,914	812
96,530	37,827	58,703
21,800	20,403	1,397
27,086	12,488	14,598
<u>6,313,552</u>	<u>5,638,477</u>	<u>675,075</u>
<u>(940,338)</u>	<u>(311,442)</u>	<u>628,896</u>
15,000	21,039	6,039
(100)	0	100
17,500	31,216	13,716
(36,562)	(31,216)	5,346
<u>(4,162)</u>	<u>21,039</u>	<u>25,201</u>
(944,500)	(290,403)	654,097
840,705	840,705	0
84,237	84,237	0
<u>\$ (19,558)</u>	<u>\$ 634,539</u>	<u>\$ 654,097</u>

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
*For Fiscal Year Ended June 30, 2003*

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Description of the Entity***

The Educational Service Center 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 Educational Service Center and the Portage County Local School Centers make up the Portage County Local School System. The Educational Service Center is an administrative entity which operates under an elected Board of Education (five members) as defined by Section 3311.05 of the Ohio Revised Code. The Board employs 66 certified and 78 noncertified employees.

The Educational Service Center adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions and component units for which the Educational Service Center is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the Educational Service 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 Educational Service Center.

On this basis, the combined financial statements include all of the funds and account groups of the Educational Service Center over which the Educational Service Center exercises operating control. It was determined the Educational Service Center has no component units.

***A. Basis of Presentation – Fund Accounting***

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

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category is then divided into various fund types. The following are the fund types and account groups utilized by the Educational Service Center.



**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
*For Fiscal Year Ended June 30, 2003*

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**Governmental Funds** Governmental funds are those through which most governmental functions of the Educational Service Center are financed. The acquisition, use, and balances of the Educational Service Center's expendable financial resources and the related current liabilities, except those accounted for in proprietary and fiduciary funds, are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position.

**General Fund** The general fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

**Special Revenue Funds** Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

**Capital Project Funds** The capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or trust funds.

**Fiduciary Funds** Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. The following is the Educational Service Center's fiduciary fund.

**Expendable Trust Funds** Accounted for in essentially the same manner as the governmental fund types.

**Agency Funds** These funds are purely custodial in nature and thus do not involve measurement of results of operations.

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

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

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

**B. Measurement Focus and Basis of Accounting**

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

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
*For Fiscal Year Ended June 30, 2003*

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The modified accrual basis of accounting is used for reporting purposes by all governmental fund types. Under this method of accounting, the Educational Service Center recognizes revenues in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined.

"Available" means collectable within the current fiscal period or soon enough thereafter to be used to pay liabilities of the current fiscal period, which the Educational Service Center considers to be sixty days after year end.

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred except for unmatured principal and interest on general long-term debt which is reported only when due, and the costs of accumulated unpaid vacation and sick leave which are reported as expenditures in the period in which they may be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

***C. Budgetary Process***

Annually, on or before a date designated by the State Department of Education, the Educational Service Center shall prepare a budget of operating expenses for the ensuing year for the Educational Service Center and shall certify the budget to the State Board of Education.

The budget shall consist of two parts. Part (A) shall include the cost of salaries, employer retirement contributions and travel expenses of supervisory teachers. Part (B) shall include the cost of all other lawful expenditures of the Educational Service Center. The State Board of Education will then review the budget and may approve, increase or decrease such budget.

***Appropriations***

The Educational Service Center is not required to appropriate funds under Section 5705.38, Revised Code; however, expenditures must be based upon the budget. The Educational Service Center may also adopt an appropriation measure. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. Appropriation amounts are as originally adopted, or as amended by the Educational Service Center throughout the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. During the year, several supplemental appropriation measures were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
*For Fiscal Year Ended June 30, 2003*

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***Encumbrances***

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

***Lapsing of Appropriations*** Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

***D. Deposits and Investments***

The Educational Service Center considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Educational Service Center pools its cash for investment and administration purposes. Deposit and investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments and other cash equivalents are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Investment income is recorded in the general fund, as permitted by the Ohio Revised Code. Investments are stated at cost which approximates fair value at year-end. Cash deposits are reported as carrying amount, which reasonably estimates fair value.

The Educational Service Center has also invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2003. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003.

***E. Inventory***

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items are recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

***F. Fixed Assets and Depreciation***

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost when historical records are available and at an estimated historical cost when no historical cost records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The Educational Service Center does not possess any infrastructure.

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
*For Fiscal Year Ended June 30, 2003*

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The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Assets in the general fixed assets account group are not depreciated.

***G. Advances to Other Funds***

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

***H. Compensated Absences***

GASB Statement No. 16 specifies that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met.

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Other compensated absences with characteristics similar to vacation leave are those which are not contingent on a specific event outside the control of the employer and employee.

Further, sick leave and other similar compensated absences are those which are contingent on a specific event that is outside the control of the employer and employee. The Educational Service Center has accrued a liability for these compensated absences using the termination method when the following criteria are met.

The benefits are earned by the employees and it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' retirement ("termination payments").

The sick leave liability has been based on the Educational Service Center's past experience of making termination payments for sick leave.

For governmental funds, that portion of the liability which is non-current is reported in the general long-term debt account group. Liabilities that may use current expendable resources are recorded in the fund from which the employees are paid.

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
*For Fiscal Year Ended June 30, 2003*

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***I. Long-Term Debt***

Long-term debt is recognized as a liability of a governmental fund when past due, or when resources have been accumulated in the debt service fund. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligation is reported in the general long-term debt account group.

***J. Fund Balance Reserves***

Fund balance reserves represent that 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, materials and supplies inventory, and prepaid items. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

***K. Intergovernmental Revenues***

In governmental funds, entitlements and non-reimbursable grants are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related

expenditures are incurred. The Educational Service Center currently participates in various state and federal programs.

***L. Interfund Transactions***

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

***M. Total Columns on General Purpose Financial Statements***

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

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
For Fiscal Year Ended June 30, 2003

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**NOTE 2 - COMPLIANCE AND ACCOUNTABILITY**

***Budgetary Basis of Accounting***

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

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

Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the GAAP basis are as follows:

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

	June 30, 2003			
	General	Special Revenue	Capital Projects	Expendable Trust
GAAP Basis	\$ (358,143)	\$ 15,048	\$ (5,008)	\$ (18,000)
Net adjustment for revenue accruals	118,583	39,565	0	2,000
Net adjustment for expenditures accruals	62,589	(18,912)	3,063	(2,000)
Encumbrances	(111,912)	(17,276)	0	0
Budget Basis	\$ (288,883)	\$ 18,425	\$ (1,945)	\$ (18,000)

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
*For Fiscal Year Ended June 30, 2003*

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**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2003, the District has implemented GASB Statement No.33, “Accounting and Financial Reporting for Nonexchange Transactions,” and GASB Statement No. 36, “Reporting for Certain Shared Nonexchange Revenues.” The statements established accounting and reporting guidelines for governments’ decisions about when (in the fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. The implementation of GASB Statement No. 33 and 36 did not have a material effect on fund balance as it was previously reported as of June 30, 2002.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

The Educational Service Center's Treasurer is responsible for the safekeeping and investment of all public funds. It is also the Treasurer's responsibility to deposit and invest the Educational Service Center's idle funds. The Educational Service Center's practice is to limit investments to collateralized repurchase agreements and the State Treasurer's Asset Reserve of Ohio (STAROhio).

***A. Legal Requirements***

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

Interim monies can 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;

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
*For Fiscal Year Ended June 30, 2003*

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- (2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- (3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily with the term of the agreement not exceeding 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 investments pool (STAROhio);
- (7) Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
- (8) Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of Educational Service Center of Portage County, and must be purchased with the

expectation that it will be held to maturity. Investments may only be made through specific dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the Educational Service Center's cash and investments is provided by the Federal Deposit Insurance Corporation as well as by qualified securities pledged by the institution holding the assets. By law, financial institutions may establish a collateral pool to cover all public deposits. The face value of the pooled collateral generally must equal at least 110% of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.



**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
For Fiscal Year Ended June 30, 2003

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***Deposits and Cash***

At June 30, 2003, the Educational Service Center had \$100 of petty cash on hand.

At year end, the carrying amount of the Educational Service Center's deposits was \$203,938 while the bank balance was \$1,002,473. Federal depository insurance covered \$200,000 of the bank balance. The remaining \$802,473 was uninsured and uncollateralized as defined by the GASB because the collateral pledged by the financial institutions or other trust departments or agents is not in the Educational Service Center's name due to the fact that the pledging bank has an investment and securities pool used to collateralize all public deposits. This method of collateralization is expressly authorized by state statute.

***Investments***

The Educational Service Center's investments are categorized below to give an indication of the level of risk assumed by the Educational Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Educational Service Center's name.

	Category			Carrying Value	Market Value
	1	2	3		
Overnight Repurchase Agreement	\$ 0	\$ 0	\$ 8,888	\$ 8,888	\$ 8,888
Key Bank - Money Market	0	0	1,495,848	1,495,848	1,495,848
	0	0	1,504,736		
STAROhio				1,654,387	1,654,387
Grand Total			<u>\$ 1,504,736</u>	<u>\$ 3,159,123</u>	<u>\$ 3,159,123</u>

The carrying amount of deposits and investments is presented on the combined balance sheet as Equity in Pooled Cash and Cash Equivalents.

STAROhio and Key Bank are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
For Fiscal Year Ended June 30, 2003

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**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2003 consisted of accounts (rent, student fees and miscellaneous charges for services), interest, and intergovernmental entitlements, grants and amounts due from other local governments for services rendered. All intergovernmental receivables are considered collectible in full due to the stable condition of state programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental grants and entitlements receivable follows:

Intergovernmental receivables:

	2003
General Fund	\$ 1,132,648
Special Revenue	13,716
Total	\$ 1,146,364

**NOTE 6 - FIXED ASSETS**

A summary of the changes in general fixed assets follows:

	Balance 7/1/2002	Additions	Reductions	Balance 6/30/2003
Furniture and equipment	\$ 341,583	\$ 60,483	\$ 1,765	\$ 400,301
Total	\$ 341,583	\$ 60,483	\$ 1,765	\$ 400,301

**NOTE 7 - LONG-TERM OBLIGATIONS**

Long-term obligations at June 30, 2003 consisted of the following:

	Balance 07/01/02	Additions	Reductions	Balance 06/30/03
Compensated Absences Payable	\$ 85,861	\$ 64,888	\$ 37,529	\$ 113,220
Intergovernmental Payable	13,937	0	0	13,937
Total General Long-Term Obligations	\$ 99,798	\$ 64,888	\$ 37,529	\$ 127,157

**NOTE 8 – INTERFUND TRANSACTIONS**

Interfund balance at June 30, 2003 consisted of the following individual fund receivables and payables:

	Balance 6/30/2003	
	Receivable	Payable
General	\$ 13,716	\$ 0
Special Revenue	0	13,716
	\$ 13,716	\$ 13,716

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
*For Fiscal Year Ended June 30, 2003*

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**NOTE 9 - PENSION PLANS**

***School Employees Retirement System (SERS)***

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple-employer public employee retirement defined benefit pension plan. SERS provides retirement, annual cost-of-living adjustments, disability, survivor and health care 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and the Educational Service Center are established and may be amended by the SERS Board of Trustees. The Educational Service Center's contributions to SERS for the years ending June 30, 2003, 2002, and 2001 were \$163,966, \$132,296, and \$99,175, respectively, 100% has been contributed for fiscal years 2003, 2002 and 2001.

***State Teachers Retirement System (STRS)***

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple-employer public employee retirement defined benefit pension plan operated by the State of Ohio. STRS provides retirement, annual cost-of-living adjustments, disability, survivor and health care benefits. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report can 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% of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and the Educational Service Center are established and may be amended by the STRS Board of Trustees. The Educational Service Center's contributions to STRS for the years ending June 30, 2003, 2002 and 2001, were \$352,607, \$270,894, and \$227,369, respectively, 100% of the contribution for fiscal years 2003, 2002, and 2001 has been made.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

***School Employees Retirement System (SERS)***

The Ohio Revised Code gives SERS the discretionary authority to provide post-retirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, and to 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 premiums for health care. The portion is based on years of service up to a maximum of 75% of their premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2003, the allocation rate was 5.83%. In addition, SERS levies a surcharge to fund

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
*For Fiscal Year Ended June 30, 2003*

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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 2003 the minimum pay has been established as \$14,500.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits were \$303.6 million, at cost. The number of participant's currently receiving health care benefits is approximately 50,000. The portion of employer contributions that was used to fund postemployment benefits for fiscal year 2003, 2002 and 2001, was \$68,275, \$92,607 and \$59,862, respectively.

***State Teachers Retirement System (STRS)***

The State Teachers Retirement System of Ohio (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (ORC), the State Teachers Retirement Board (Board) has discretionary 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 costs in the form of a monthly premium.

The ORC grants authority to STRS to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. However, for the fiscal year ended June 30, 2002, the board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$2.8 billion at June 30, 2003. For the year ended June 30, 2003, the net health care costs paid by STRS were \$352,301,000. There were 108,294 eligible benefit recipients. The portion of employer contributions that was used to fund postemployment benefits for fiscal year 2003 was \$25,186.

**NOTE 11 - OTHER EMPLOYEE BENEFITS - COMPENSATED ABSENCES**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements, Board policies and State laws. Certified and classified employees that work 260 days per year earn ten to twenty days of vacation per year depending upon length of service. Vacation days are credited to classified employees on the anniversary of their employment and must be used within the next twelve months. Teachers and administrators (those not working 260 days) do not earn vacation time. All employees of the Educational Service Center earn sick leave at the rate of one and one-fourth days per month. Upon retirement, 25% of the accumulation of unused sick leave days up to 120 days will be awarded to an employee. The employee will also be awarded 10% of the days accumulated over 120 days up to the maximum allowable per labor agreement.

The amount of accumulated vacation and sick leave of employees paid from governmental funds that meets the eligibility requirements has been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability is recorded in the general long-term debt account group.

**NOTE 12 - RISK MANAGEMENT**

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
*For Fiscal Year Ended June 30, 2003*

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The Educational Service Center participates in the Portage County School Consortium which is a co-operative entity to facilitate effective risk management and to share the cost of providing various insurance coverage and employee benefits. There has not been a significant reduction in coverage from the prior year.

***Portage County School Consortium*** The Portage County School Consortium was established in 1981 so that 12 educational-service providers in Portage County could manage risk exposures and purchase necessary insurance coverage as a group. The Health and Welfare Trust is organized under the provisions of Section 501(c)(9) of the Internal Revenue Code. Its purpose is to facilitate the management of risks associated with providing employee benefits coverage such as health insurance, disability insurance and life insurance. A third party administrator is retained by the consortium to facilitate the operation of the Health and Welfare Trust. The Educational Service Center pays all insurance premiums directly the consortium. Also, the insurance agreement with Portage County School Consortium provides that the Consortium will reinsure through commercial companies for claims over \$150,000 per employee. Although the Educational Service Center does not participate in the day-to-day management of the consortium, one of its administrators serves as a trustee of the consortium's governing board as provided in the consortium's enabling authority. Although the Educational Service Center recognizes that it retains a contingent liability to provide insurance coverage should the assets of the consortium become depleted, it is the opinion of management that the assets of the consortium are sufficient to meet its claims.

Effective January 1, 1998, the Educational Service Center of Portage County is the fiscal agent of the Consortium.

**NOTE 13 - CONTINGENCIES**

***Grants***

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2003.

***Litigation***

The Educational Service Center is not currently a party to any legal proceedings.

**Educational Service Center of Portage County**  
*Notes to the General Purpose Financial Statements*  
*For Fiscal Year Ended June 30, 2003*

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**NOTE 14 – OTHER MATTERS**

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.

**NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS**

The Stark Portage Area Computer Consortium (SPARCC) is a jointly governed organization comprised of 28 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports SPARCC based upon a per pupil charge dependent upon the software package utilized. However, since the Service Center is a county governmental entity, they are not required to pay any fees to SPARCC. The SPARCC assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. SPARCC is governed by a board of directors chosen from the general membership of the SPARCC assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county in which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Stark County Education Service Center, which serves as fiscal agent, located at 2100 38<sup>th</sup> Street, NW, Canton, Ohio 44709.

**NOTE 16 – OTHER**

The agency fund is made up of two entities: The Portage County Area School Consortium Health and Welfare Insurance Pool and The Portage Area School Consortium Property and Casualty Pool. These entities are audited by the State of Ohio on a cash basis. These audits can be found on the Auditor of State’s Website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 27, 2005

The Board of Education  
Educational Service Center of Portage County  
Ravenna, Ohio 44266

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

We have audited the general purpose financial statements of the Education Service Center of Portage County as of and for the year ended June 30, 2003, and have issued our report thereon dated January 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

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

### **Internal Control Over Financial Reporting**

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

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

*Rea & Associates, Inc.*







**Auditor of State  
Betty Montgomery**

88 East Broad Street  
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Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY  
PORTAGE 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  
MARCH 29, 2005**