

Medina County ESC  
Medina County, Ohio

Regular Audit

July 1, 2007, through June 30, 2008  
Fiscal Years Audited Under GAGAS: 2008



**Balestra, Harr & Scherer, CPAs, Inc.**

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Mary Taylor, CPA  
Auditor of State

Members of the Board  
Medina County Educational Service Center  
124 W. Washington St.  
Medina, Ohio 44256

We have reviewed the *Independent Auditor's Report* of the Medina County Educational Service Center, Medina County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 Medina County Educational Service Center is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 11, 2010

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**Medina County ESC**  
**Medina County**  
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## Independent Auditor's Report

Members of the Board  
Medina County Educational Service Center  
124 W. Washington St.  
Medina, OH 44256

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Medina County Educational Service Center, Medina County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2008, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

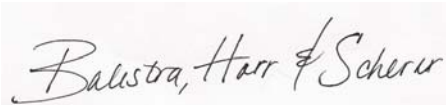
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2009 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 2, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures – an amendment of GASB statement No. 25 and No. 27*, GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future revenues* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

December 31, 2009

## Medina County Educational Service Center

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2008*

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The discussion and analysis of Medina County Educational Service Center's (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

### ***Financial Highlights***

Key Financial Highlights for 2008 are as follows:

In total, net assets increased by \$.04 million.

Revenues for governmental activities totaled \$5.0 million in 2008. Of this total, 31.85% consisted of general revenues while program revenues accounted for the balance of 68.15%.

Program expenses totaled \$4.6 million. Instructional expenses made up 20.9% of this total while support services accounted for 78.3%. Other expenses rounded out the remaining .8%.

### ***Using this Annual Report***

This annual report consists of a series of financial statements and notes pertaining to those statements. These statements are organized so the reader can understand the Educational Service Center as a financial whole, or an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the whole Educational Service Center, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of the Educational Service Center, the general fund by far is the most significant fund.



**Medina County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*

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***Reporting the Educational Service Center as a Whole***

*Statement of Net Assets and the Statement of Activities*

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2008?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The *Statement of Net Assets* and the *Statement of Activities* are represented by one type of activity; Governmental Activities. The Educational Service Center's programs and services are reported here including instruction, support services, pupil transportation and extracurricular activities.

The government wide financial statements begin on page 10.

***Reporting the Educational Service Center's Most Significant Funds***

*Fund Financial Statements*

The analysis of the Educational Service Center's major fund begins on page 8. Fund financial reports provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the general fund.

## **Medina County Educational Service Center**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2008*

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**Governmental Funds** - Most of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be a major fund. Data from the other governmental funds are combined into a single aggregated presentation.

The governmental fund financial statements begin on page 12.

**Fiduciary Funds** - These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Educational Service Center's own programs. The accounting for the fiduciary funds is much like that used for governmental activities.

The fiduciary fund financial statements begin on page 16.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 19.

**Medina County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*

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**The Educational Service Center as a Whole**

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center's net assets for 2008 compared to 2007:

**(Table 1)**  
**Net Assets**  
**Governmental Activities**

	2008	2007
<b>Assets</b>		
Current and Other Assets	\$ 2,469,218	\$ 2,031,659
Capital Assets	104,287	91,254
Total Assets	2,573,505	2,122,913
<b>Liabilities</b>		
Long-Term Liabilities	156,427	142,034
Other Liabilities	210,460	169,830
Total Liabilities	366,887	311,864
<b>Net Assets</b>		
Invested in Capital Assets	104,287	91,254
Restricted	108,080	93,848
Unrestricted	1,994,251	1,625,947
Total Net Assets	\$ 2,206,618	\$ 1,811,049

Total assets increased by \$.5 million with intergovernmental fees and services receivable accounting for most of that amount. Total liabilities increased by \$.06 million, due in part to an increase in general accounts payable.

**Medina County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008*

Table 2 shows the changes in net assets for fiscal year 2008 and 2007 and will help further explain the change from the prior year.

**(Table 2)  
Governmental Activities**

	<u>2008</u>	<u>2007</u>
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 3,282,232	\$ 2,368,460
Operating Grants	116,718	238,723
<i>General Revenue:</i>		
Grants and Entitlements not Restricted to Specific Programs	1,487,999	1,518,960
Other	<u>100,524</u>	<u>87,581</u>
<i>Total Revenues</i>	4,987,473	4,213,724
<b>Program Expenses</b>		
Instruction	958,270	711,219
Support Services	3,595,527	3,121,099
Operation of Non-Instructional Services	200	285
Extracurricular Activities	<u>37,907</u>	<u>31,270</u>
<i>Total Expenses</i>	<u>4,591,904</u>	<u>3,863,873</u>
Increase (Decrease) in Net Assets	<u>\$ 395,569</u>	<u>\$ 349,851</u>

The net assets increased \$.04 million over fiscal year 2007, or 24.0%, which can be attributed to an increase in charges for services in fiscal year 2008 as member district services were provided by the Educational Service Center. The increase in support service expenses is in direct relation to those same increases in services provided.

**Medina County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008*

**Governmental Activities**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental activities had total revenues of \$5.0 million and expenses of \$4.6 million.

**(Table 3)  
Governmental Activities**

	2008		2007	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 958,270	\$ 115,101	\$ 711,219	\$ (32,438)
Support Services:				
Pupil and Instructional Staff	2,587,839	478,962	2,221,027	851,565
Board of Governors	42,720	42,720	43,835	43,835
Administration	165,873	165,873	170,488	170,488
Fiscal	214,536	214,536	149,150	149,150
Business	283,124	98,906	264,492	(7,662)
Pupil Transportation	14,206	14,206	13,816	13,816
Central	287,229	79,360	258,291	70,653
Operation of Non-Instructional Extracurricular Activities	200	200	285	285
	37,907	(16,910)	31,270	(3,002)
Total	<u>\$ 4,591,904</u>	<u>\$ 1,192,954</u>	<u>\$ 3,863,873</u>	<u>\$ 1,256,690</u>

Instruction and Student Support Services related to instruction comprise 77.2% of governmental program expenses. Administration, Fiscal and Business expenses account for 14.5% of governmental program expenses.

**Financial Analysis of the Educational Service Center's Funds**

***Governmental Funds***

The focus of the Educational Service Center's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Educational Service Centers financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Educational Service Center's net resources available for spending at year-end.

**Medina County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008*

The Educational Service Center's governmental funds (as presented on the balance sheet on page 12) reported a total fund balance of \$2.0 million, which is \$.2 million over last year's balance of \$1.8 million. The most significant changes within the Educational Service Center's only major fund was reported in the General fund with an increase in fund balance of \$.2 million. The increase in charges for services contributed to the increase.

***Capital Assets***

At the end of fiscal year 2008 the Educational Service Center had \$104,287 invested in furniture, fixtures and equipment and vehicles. Table 4 shows fiscal year 2008 balances compared with 2007.

**(Table 4)  
Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2008	2007
Furniture, Fixtures and Equipment	\$ 90,624	\$ 91,254
Vehicles	13,663	0
Totals	<u>\$ 104,287</u>	<u>\$ 91,254</u>

Total capital assets increased \$13,033 or 14.3% over fiscal year 2007. Additions of vehicles and equipment amounted to more than depreciation accounting for the increase. For additional information, see Note 7.

***Current Financial Related Activities***

Medina County Educational Service Center is financially sound. The Board and administration closely monitor its revenue and expenditures in accordance with board policy. The Educational Service Center is committed to serving its local school districts and will continue to do so. While many outside factors can affect the economy, the Educational Service Center is committed to providing the best services possible and to be fiscally responsible now and in the future.

***Contacting the Educational Service Center's Financial Management***

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Michelle McNeely, Treasurer, at Medina County Educational Service Center, 124 W. Washington St., Medina, Ohio 44256 or call 330-723-6393.

**Medina County Educational Service Center**  
*Statement of Net Assets*  
*June 30, 2008*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,067,291
Accounts Receivable	401,927
Depreciable Capital Assets (Net)	104,287
<i>Total Assets</i>	2,573,505
<b>Liabilities</b>	
Accounts Payable	46,798
Accrued Wages and Benefits	114,878
Intergovernmental Payable	48,784
Long Term Liabilities:	
Due Within One Year	71,385
Due In More Than One Year	85,042
<i>Total Liabilities</i>	366,887
<b>Net Assets</b>	
Invested in Capital Assets	104,287
Restricted for Other Purposes	108,080
Unrestricted	1,994,251
<b>Total Net Assets</b>	\$ 2,206,618

See accompanying notes to the basic financial statements

**Medina County Educational Service Center**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants Contributions and Interest	Governmental Activities
<b>Governmental Activities</b>				
Current:				
Instruction:				
Regular	\$ 277,841	\$ 230,654	\$ 5,000	\$ (42,187)
Special	415,210	346,481	0	(68,729)
Vocational	52,698	52,677	0	(21)
Adult continuing	189,875	99,639	103,828	13,592
Other	22,646	0	4,890	(17,756)
Support services:				
Pupils	188,925	147,699	0	(41,226)
Instructional staff	2,398,914	1,958,178	3,000	(437,736)
Board of governors	42,720	0	0	(42,720)
Administration	165,873	0	0	(165,873)
Fiscal	214,536	0	0	(214,536)
Business	283,124	184,218	0	(98,906)
Pupil transportation	14,206	0	0	(14,206)
Central	287,229	207,869	0	(79,360)
Operation of non-instructional services	200	0	0	(200)
Extracurricular activities	37,907	54,817	0	16,910
<b>Total Governmental Activities</b>	<b>\$ 4,591,904</b>	<b>\$ 3,282,232</b>	<b>\$ 116,718</b>	<b>(1,192,954)</b>

**General Revenues**

Grants and Entitlements not Restricted to Specific Programs	1,487,999
Investment Earnings	81,684
Miscellaneous	18,840
<b>Total General Revenues</b>	<b>1,588,523</b>
Change in Net Assets	395,569
Net Assets Beginning of Year	1,811,049
Net Assets End of Year	<b>\$ 2,206,618</b>

See accompanying notes to the basic financial statements



**Medina County Educational Service Center**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2008*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,951,095	\$ 116,196	\$ 2,067,291
Accounts Receivable	383,087	18,840	401,927
<i>Total Assets</i>	<u>\$ 2,334,182</u>	<u>\$ 135,036</u>	<u>\$ 2,469,218</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 27,808	\$ 18,990	\$ 46,798
Accrued Wages and Benefits	114,878	0	114,878
Intergovernmental Payable	48,712	72	48,784
Deferred Revenue	214,348	6,565	220,913
<i>Total Liabilities</i>	405,746	25,627	431,373
<b>Fund Balances</b>			
Reserved for Encumbrances	44,534	32,094	76,628
Unreserved Undesignated, Reported in:			
General Fund	1,883,902	0	1,883,902
Special Revenue Funds	0	77,315	77,315
<i>Total Fund Balances</i>	<u>1,928,436</u>	<u>109,409</u>	<u>2,037,845</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,334,182</u>	<u>\$ 135,036</u>	<u>\$ 2,469,218</u>

See accompanying notes to the basic financial statements

**Medina County Educational Service Center**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Assets of Governmental Activities*  
*June 30, 2008*

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Total Governmental Fund Balances	\$ 2,037,845
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	104,287
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds. Fees and Services	220,913
Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds. Compensated Absences	<u>(156,427)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 2,206,618</u></u>

See accompanying notes to the basic financial statement.

**Medina County Educational Service Center**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2008*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Intergovernmental	\$ 1,487,999	\$ 111,718	\$ 1,599,717
Investment income	81,684	0	81,684
Tuition and fees	118,263	0	118,263
Customer sales and services	2,855,286	98,159	2,953,445
Gifts and donations	0	5,000	5,000
Miscellaneous	0	15,425	15,425
<i>Total Revenues</i>	<u>4,543,232</u>	<u>230,302</u>	<u>4,773,534</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	272,562	3,921	276,483
Special	412,882	0	412,882
Vocational	52,330	0	52,330
Adult continuing	0	190,036	190,036
Other	0	22,646	22,646
Support services:			
Pupils	186,217	0	186,217
Instructional staff	2,409,047	2,227	2,411,274
Board of education	42,720		42,720
Administration	164,895	0	164,895
Fiscal	211,681	0	211,681
Business	279,982	0	279,982
Pupil transportation	14,206	0	14,206
Central	287,086	0	287,086
Operation of non-instructional services	0	200	200
Extracurricular activities	37,907	0	37,907
<i>Total Expenditures</i>	<u>4,371,515</u>	<u>219,030</u>	<u>4,590,545</u>
<i>Net Change in Fund Balance</i>	171,717	11,272	182,989
<i>Fund balance (deficit) at beginning of year</i>	<u>1,756,719</u>	<u>98,137</u>	<u>1,854,856</u>
<i>Fund balance (deficit) at end of year</i>	<u>\$ 1,928,436</u>	<u>\$ 109,409</u>	<u>\$ 2,037,845</u>

See accompanying notes to the basic financial statements

**Medina County Educational Service Center**  
*Reconciliation of the Changes*  
*in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2008*

Net Change in Fund Balances - Total Governmental Funds	\$	182,989
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures, However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Current Year Depreciation	\$ (40,007)	
Capital Asset Additions	53,040	13,033
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		
Fees and Services	213,940	213,940
 Some expenses reported in the statement of activities do not use the current financial resources and therefore are not reported as expenditures in governmental funds.		
(Increase) Decrease in Compensated Absences		(14,393)
 Change in Net Assets of Governmental Activities	 \$	 <u><u>395,569</u></u>

See accompanying notes to the basic financial statements

**Medina County Educational Service Center**

*Statement of Fiduciary Net Assets*

*Fiduciary Fund*

*June 30, 2008*

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	<u>Private Purpose Trust</u>
	<u>Special Trust</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ <u>110,070</u>
<b>Net Assets</b>	
Held in Trust for Scholarships	\$ <u>110,070</u>

See accompanying notes to the basic financial statements

**Medina County Educational Service Center**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Fund*  
*For the Fiscal Year Ended June 30, 2008*

	Private Purpose Trust
	Special Trust
<b>Additions</b>	
Gifts and Contributions	\$ 1,195
Interest	4,616
<i>Total Additions</i>	5,811
<b>Deductions</b>	
Scholarships Awarded	5,288
<i>Change in Net Assets</i>	523
<i>Net Assets Beginning of Year</i>	109,547
<i>Net Assets End of Year</i>	\$ 110,070

See accompanying notes to the basic financial statements

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## **Medina County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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### **Note 1 - Description of The School District**

The Medina County Educational Service Center (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 18, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological, and other needed services to all the school districts in Medina County.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's instructional/support facilities staffed by 63 noncertificated, 41 certificated teaching personnel, and 2 administrators who provide services to 28,853 students through the school districts in Medina County.

#### ***Reporting Entity***

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate for the Educational Service Center. For the Educational Service Center, this includes all the agencies and departments that provide the following services: general operations and related special education, supervisory, administrative and fiscal activities of the Educational Service Center.

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

The Educational Service Center is associated with the Northeast Ohio Network for Educational Technology (NEOnet) which is defined as a Jointly Governed Organization, the Sheakley Uniservice, Inc's Worker's Compensation Group Rating Program which is defined as an Insurance Purchasing Pool, and the Stark County Schools Council of Governments which is defined as a Risk Sharing Pool. Each of these is presented in Note 6 to the basic financial statements.

### **Note 2 - Summary of Significant Accounting Policies**

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Educational Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November



## Medina County Educational Service Center

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008*

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30, 1989 to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements.

The most significant of the Educational Service Center's accounting policies are described below.

#### ***A. Basis of Presentation***

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Educational Service Center.

***Fund Financial Statements*** During the year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

#### ***B. Fund Accounting***

The Educational Service Center uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service Center functions or activities. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The various funds of the Educational Service Center are grouped into the categories governmental and fiduciary.

***Governmental Funds*** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which

## Medina County Educational Service Center

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Educational Service Center's major governmental fund:

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

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted to a particular purpose.

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has one private purpose trust fund which is used to account for scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center has no agency funds.

#### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

**Fund Financial Statements** 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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

#### **D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

## Medina County Educational Service Center

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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**Revenues - Exchange and Non-Exchange Transactions** 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. "Measurable" means the amount of the transaction can be determined and "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 Educational Service Center, available means expected to be received within sixty days of the fiscal year-end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: grants, investment earnings, tuition, customer services and charges for services, rentals and fees.

**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

### ***E. Budgetary Data***

Although not legally required, the Educational Service Center adopts a budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Center), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the Educational Service Center's requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated revenues. The

## **Medina County Educational Service Center**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008*

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Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board. Throughout the year, estimated resources and appropriations may be amended or supplemented as circumstances warrant.

#### ***F. Cash and Investments***

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

During fiscal year 2008, investments were limited to U.S. Federal Government Agencies, Certificates of Deposit and STAROhio, (the State Treasurer's Investment Pool). Except for investment contracts that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center invested funds in STAROhio during 2008. 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, 2008.

Following Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$81,684, which includes \$4,115 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as "Equity in Pooled Cash and Investments". Investments with an original maturity of more than three months are reported as "Investments".

#### ***G. Capital Assets***

The Educational Service Center's capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

**Medina County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Furniture, Fixtures and Equipment	5 - 10 Years
Vehicles	5 Years

***H. Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

***I. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

***J. Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

## **Medina County Educational Service Center**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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#### ***K. Interfund Activity***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

#### ***L. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Educational Service Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Net assets restricted for other purposes included assets restricted for grants. At June 30, 2008, the Educational Service Center had no assets restricted by enabling legislation.

#### ***M. Fund Balance Reserves***

The Educational Service Center reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances.

#### ***N. Estimates***

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

#### ***O. Implementation of New Accounting Policies***

For the year ended 2008, the Educational Service Center has implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", and GASB Statement No. 50, "Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27."

GASB Statement No. 45 provides guidance on all aspects of OPEB reporting by employers. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

## Medina County Educational Service Center

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008*

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GASB Statement No. 48 provides guidance on accounting for sales and pledges of receivables and future revenues. The Statement also requires governments to disclose in the notes to the financial statements the amount of future revenues that have been pledged or sold.

GASB Statement No. 49 provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts.

GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statement No. 25, *“Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans”*, and GASB Statement No. 27, *“Accounting for Pensions by State and Local Governmental Employers”*, to conform with requirements of GASB Statement No. 43, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*, and GASB Statement No. 45, *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”*.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the Educational Service Center.

### **Note 3 - Deposits and Investments**

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 Governors 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.

Protection of 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.

## **Medina County Educational Service Center**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two 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 these divisions are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date 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 classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made 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.



**Medina County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

Custodial credit risk for deposits is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Educational Service Center cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105% of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. These securities, held by the counterparty and not in the Educational Service Center's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The Educational Service Center's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

**Cash on Hand:** At year end, the Educational Service Center had \$100 in undeposited cash on hand which is included on the balance sheet of the Educational Service Center as part of equity in pooled cash and cash equivalents.

**Deposits:** The carrying value of the Educational Service Center's deposits totaled \$1,861,072 and the bank balances of the deposits totaled \$2,141,249. \$696,985 of the bank balance was covered by federal depository insurance and \$1,444,264 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

**Investments**

Investments are reported at fair value. As of June 30, 2008, the Educational Service Center had the following investments:

Standard & Poor Rating		Fair Value	Investment Maturities (in months) 0 - 6	% Total Investment
AAAm	STAROhio	\$ 116,189	\$ 116,189	36.74%
AAA	Federal Farm Home Loan	100,000	100,000	31.63%
AAA	Federal Farm Credit Bank	100,000	100,000	31.63%
	Totals	<u>\$ 316,189</u>	<u>\$ 316,189</u>	<u>100.00%</u>

**Interest Rate Risk:** The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Educational Service Center's policy indicates that the

## Medina County Educational Service Center

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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investments must mature within five years, unless matched to a specific obligation or debt of the Educational Service Center.

**Credit Risk:** The Educational Service Center's investments at June 30, 2008 in STAROhio is rated AAAM by Standard & Poor's and the Federal Farm Home Loan and Federal Farm Credit are rated AAA by Standard and Poor's.

**Concentration of Credit Risk:** The Educational Service Center places no limit on the amount the Educational Service Center may invest in any one issuer. More than 5% of the Educational Service Center's investments are in STAROhio, Federal Farm Home Loan and Federal Farm Credit as listed above.

#### **Note 4 - Receivables**

Receivables at June 30, 2008, consisted of account receivable for tuition and charges for services. All receivables are considered collectible in full within one year.

#### **Note 5 – State Funding**

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$43.50 for each of the 28,853 students who are provided services. The \$43.50 is comprised of the following: \$6.50 times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school districts to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, \$37.00 times the ADM is paid by the State Board of Education from State funds.

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

#### **Note 6 – Jointly Governed Organizations and Public Entity Risk Pool**

##### ***A. Jointly Governed Organizations***

The Northeast Ohio Network for Educational Technology (NEOnet) is a consortium of school districts which have voluntarily formed in order to provide for the schools common needs. NEOnet is 1 of 23 sites in the Ohio Education Computer Network providing computer services to schools in their respective geographic areas. NEOnet serves school districts primarily in Summit, Medina and Portage Counties. The governance of NEOnet is controlled by an Assembly, Board of Directors and several subcommittees. The Agreement explains the role of each group and the methods used to make decisions. The Security Policy details the process of gaining access to our resources. The Student Data Release Form should be accessed to start the process of downloading student data. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding.

**Medina County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

***B. Insurance Purchasing Pool***

The Educational Service Center participates in a group rating plan for workers' compensation as established under section 4123.29 of the Ohio Revised Code. The Sheakley Uniservice, Inc's Group Rating Program was established as an insurance purchasing pool.

The WCGRP'S business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the WCGRP to cover the costs of administering the program.

***C. Risk Sharing Pool***

The Stark County Schools Council of Governments is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the Educational Service Center by the grouping with other members of the Health Benefits Program. The experience of all participating districts are calculated as one and a common premium rate is applied to all member districts. New members must maintain a reserve amount equal to 30 percent of claims paid for the preceding twelve month period.

**Note 7 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance 6/30/07	Additions	Reductions	Balance 6/30/08
<b>Governmental Activities</b>				
<i>Capital Assets, being depreciated:</i>				
Furniture, Fixtures and Equipment	\$ 469,666	\$ 36,966	\$ (110,688)	\$ 395,944
Vehicles	32,673	16,074	(15,073)	33,674
Total Capital Assets, being depreciated	<u>502,339</u>	<u>53,040</u>	<u>(125,761)</u>	<u>429,618</u>
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(378,412)	(37,596)	110,688	(305,320)
Vehicles	(32,673)	(2,411)	15,073	(20,011)
Total Accumulated Depreciation	<u>(411,085)</u>	<u>(40,007)</u>	<u>125,761</u>	<u>(325,331)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 91,254</u>	<u>\$ 13,033</u>	<u>\$ 0</u>	<u>\$ 104,287</u>

## Medina County Educational Service Center

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008*

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Depreciation expense was charged as follows:

<b>Governmental Activities:</b>	
Instruction:	
Adult Continuing	\$ 1,411
Support Services:	
Pupil	3,290
Instructional Staff	13,655
Administration	246
Fiscal	84
Business	19,971
Central	1,350
	<hr/>
Total Depreciation	<u>\$ 40,007</u>

#### **Note 8 - Risk Management**

##### ***Property and Liability***

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Educational Service Center contracted with Leonard Insurance Company for a Commercial Package Policy starting September 1, 2007 through August 31, 2008. The policy covers all furniture and equipment that has a value equal or greater than \$500. In addition, the Commissioners of Medina County provide insurance coverage for the contents of the office space they provide to the Educational Service Center.

Professional liability was protected by the Leonard Insurance Company starting September 1, 2007 through August 31, 2008. Coverage is \$2,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible for each claim. An Umbrella increases the annual aggregate by \$2,000,000 and each occurrence by \$1,000,000. A school leaders error and omissions policy is also provided by Leonard Insurance Company with an aggregate limit of \$1,000,000 and a deductible of \$2,500. Vehicles were covered by the Leonard Insurance Company as well. The policy holds a \$250 deductible for comprehensive and \$500 deductible for collision. The policy includes coverage for hired and nonowned automobiles. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past sixteen years.

For fiscal year 2008, the Educational Service Center participated in the Sheakley Uniservice, Inc's Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 6B). The Program is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program.

## **Medina County Educational Service Center**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008*

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Participation in the program is limited to districts that can meet the selection criteria. The Districts apply for participation each year. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

#### **Note 9 - Pension Plans**

##### ***A. School Employees Retirement System***

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under forms and publications.

Plan members are required to contribute 10% of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2007 and 2006, the amounts were 10% and 10.68%, respectively. The contributions to SERS for pension obligations for the fiscal years ended June 30, 2008, 2007, and 2006 were \$128,527, \$130,280 and \$137,895, respectively; 100% has been contributed for all three fiscal years.

##### ***B. State Teachers Retirement System***

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership.

## Medina County Educational Service Center

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

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unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001 were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2008, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employer contributions.

The Educational Service Center's required contributions for pension obligations for the fiscal years ended June 30, 2008, 2007, and 2006 were \$165,958, \$137,214 and \$137,895, respectively. Contributions to the DC and Combined Plans for fiscal year 2008 were \$5,977 made by the Educational Service Center and \$5,845 made by the plan members. 100% of the contributions have been made for the three fiscal years.

#### ***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2008, three of the governing board members have elected social security. The Board's liability is 6.2% of wages paid.

#### **Note 10 - Postemployment Benefits**

##### ***A. State Teachers Retirement System***

The Educational Service Center contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Ohio law authorized STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to Health Care Stabilization Fund for the years ended June 30, 2008, 2007 and 2006. The Educational Service

## Medina County Educational Service Center

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008*

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Center's contributions for health care for fiscal years ended June 30, 2008, 2007 and 2006 were \$12,766, \$10,555 and \$9,692, respectively.

#### ***B. School Employees Retirement System***

The Educational Service Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by SERS for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan included hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Forms and Publications*.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2008, the health care allocation was 4.18%, at June 30, 2007 and 2006, the health care allocations was 3.32%. The District's contributions for the years ended June 30, 2008, 2007 and 2006 were \$58,651, \$43,253 and \$42,866, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2007 (the latest information available), the minimum compensation level was established at \$35,800. For the Educational Service Center during fiscal year 2008 this amounted to \$28,006.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2008, the actuarially required allocation was .66% and for fiscal year 2007 the required allocation was .68%. The Educational Service Center contributions for the fiscal years 2008 and 2007 were \$9,261 and 8,859, respectively.

#### **Note 11 - Employee Benefits**

##### ***A. Compensated Absences***

Certified and Classified employees earn five to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time up to five days of the prorated share of the current year is paid to all employees upon termination of employment. Administrators, supervisors, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 240 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 240 days.

**Medina County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2008*

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***B. Life Insurance***

The Educational Service Center provides \$50,000 life insurance and accidental death and dismemberment insurance to most employees through UNUM Life Insurance Co. of America.

**Note 12 - Long - Term Obligations**

The changes in the Educational Service Center's long-term obligations during the year consist of the following:

	Outstanding 6/30/07	Additions	Reductions	Outstanding 6/30/08	Amounts Due in One Year
<b>Governmental Activities:</b>					
Compensated Absences	\$ 142,034	\$ 63,964	\$ 49,571	\$ 156,427	\$ 71,385
Total Governmental Activities Long-Term Liabilities	<u>\$ 142,034</u>	<u>\$ 63,964</u>	<u>\$ 49,571</u>	<u>\$ 156,427</u>	<u>\$ 71,385</u>

Compensated absences will be paid from the general fund.

**Note 13 – Contingencies**

***A. Grants***

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2008.

***B. Litigation***

The Educational Service Center is not a part of or involved in any legal proceedings at this time. The Educational Service Center management is of the opinion that ultimate disposition of any future claims and legal proceedings will not have a material effect, if any, on the financial condition of the Educational Service Center.





**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Required by *Government Auditing Standards***

Medina County Educational Service Center  
124 W. Washington St.  
Medina, OH 44256

We have audited the financial statements of the governmental activities, Each major fund, and the aggregate remaining fund information of the Medina County Educational Service Center, (the Educational Service Center), as of and for the year ended June 30, 2008, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated December 31, 2009 in which we indicated that the Educational Service Center implemented GASB Statement No. 45, 48, 49, and 50. 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 the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Educational Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Educational Service Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Educational Service Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Educational Service Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Educational Service Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as define above.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the management, and Board of Education. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

December 31, 2009



Mary Taylor, CPA  
Auditor of State

EDUCATIONAL SERVICE CENTER

MEDINA 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 23, 2010