

**PORTAGE COUNTY EDUCATIONAL SERVICE CENTER  
PORTAGE COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
(AUDITED)**

***FOR THE FISCAL YEARS ENDED  
JUNE 30, 2006 AND 2005***

**TOM MOREHOUSE, TREASURER**





# Mary Taylor, CPA

Auditor of State

Board of Education  
Portage County Educational Service Center  
326 E. Main Street  
Ravenna, Ohio 44266

We have reviewed the *Independent Auditor's Report* of the Portage County Educational Service Center, Portage County, prepared by Julian & Grube, Inc., for the audit period July 1, 2004 through June 30, 2006. 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 Portage County Educational Service Center is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 15, 2008

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**PORTAGE COUNTY EDUCATIONAL SERVICE CENTER**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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Independent Auditor's Report

Governing Board  
Portage County Educational Service Center  
326 E. Main Street  
Ravenna, OH 44266

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Portage County Educational Service Center, Franklin County, Ohio, as of and for the fiscal years ended June 30, 2006 and 2005, which collectively comprise Portage County Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Portage County 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Portage County Educational Service Center, Franklin County, Ohio, as of June 30, 2006 and 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for fiscal year 2006 and 2005 and budgetary comparison for the major special revenue fund other grants for the fiscal year 2006 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 February 19, 2008, on our consideration of Portage County Educational Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report  
Portage County Educational Service Center  
Page 2

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
February 19, 2008



**Portage County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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The management's discussion and analysis of the Portage County Educational Service Center's (Educational Service Center) financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal years ended June 30, 2006 and 2005. The intent of this discussion and analysis is to look at the Educational Service Center's performance as a whole; readers should also review notes to the basic financial statements and the financial statements to enhance their understanding of Educational Service Center's financial performance.

Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. Due to the comparative presentation within the basic financial statements, a comparison analysis between fiscal year 2005 and fiscal year 2004 is also required.

***Financial Highlights***

Key Financial Highlights for June 30, 2006 and 2005 are as follows:

- General Revenues accounted for \$1.5 million in revenue or 21% of all revenues and \$1.3 million in revenue or 20% of all revenues for 2006 and 2005 respectively. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$5.7 million or 79% of total revenues of \$7.2 million and \$5.2 million or 80% of total revenues of \$6.5 million for 2006 and 2005, respectively.
- Total program expenses were \$7.6 million for 2006 and \$6.8 million for 2005.
- In total, net assets decreased \$363,863 from 2005 and decreased \$234,402 from 2004.

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

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal years 2006 and 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of 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.

In the Statement of Net Assets and the Statement of Activities, the Educational Service Center activities are listed as Governmental:

- Governmental Activities - All of the Educational Service Center's programs and services are reported here, including instruction, support services, operation and maintenance of plant.

The government-wide financial statements begin on page 10.

**Portage County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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

*Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Educational Service Center uses fund accounting to ensure compliance with finance-related legal requirements. The Educational Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center has two major governmental funds in fiscal year 2006, the general fund and the other grant special revenue fund and has only one major governmental fund in fiscal year 2005, the general fund.

**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 and the other grant special revenue fund which are considered to be major funds for fiscal year 2006 and for fiscal year 2005 the general fund is considered to be the only major fund. Data from the other governmental funds are combined into a single, aggregated presentation.

For fiscal year 2006, the Educational Service Center adopts an annual appropriated budget for its general fund and the other grant special revenue fund and for fiscal year 2005, the Educational Service Center adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund and the other grant special revenue fund for fiscal year 2006 and for fiscal year 2005 a budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The governmental fund financial statements begin on page 14.

**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 to report proprietary funds.

The fiduciary fund financial statements begin on page 25.

**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 28.

**Portage County Educational Service Center**  
*Management's Discussion and Analysis*  
For the Fiscal Years Ended June 30, 2006 and 2005

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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 2006, 2005 and 2004 as follows:

**(Table 1)**  
**Net Assets**

	Governmental Activities		
	2006	2005	2004
<b>Assets</b>			
Current and Other Assets	\$ 2,069,520	\$ 2,049,403	\$ 1,993,231
Capital Assets	96,863	127,910	173,412
Total Assets	<u>2,166,383</u>	<u>2,177,313</u>	<u>2,166,643</u>
<b>Liabilities</b>			
Long-Term Liabilities	74,643	117,811	126,163
Other Liabilities	<u>1,225,867</u>	<u>829,766</u>	<u>576,342</u>
Total Liabilities	<u>1,300,510</u>	<u>947,577</u>	<u>702,505</u>
<b>Net Assets</b>			
Invested in Capital			
Assets Net of Debt	96,863	127,910	173,412
Restricted	28,767	75,701	64,805
Unrestricted (Deficit)	<u>740,243</u>	<u>1,026,125</u>	<u>1,225,921</u>
Total Net Assets	<u>\$ 865,873</u>	<u>\$ 1,229,736</u>	<u>\$ 1,464,138</u>

Total assets decreased by \$10,930 in 2006 and increased by \$10,670 in 2005. The increase in current and other assets of \$20,117 in fiscal year 2006 was mainly due to an increase in accounts receivable and the increase in current and other assets of \$56,172 in fiscal year 2005 was mainly due to an increase in cash. There was an increase in services to other school districts from the previous year. These services include but are not limited to Severe Behavioral Handicapped (SBH), Multiple Disabled (MD), Integrated Preschool, and Alternative School classes. The Educational Service Center also provides related services such as Physical Therapy, Occupational Therapy, Speech Therapy, Adapted Physical Education, and Psychological services. The Educational Service Center also employs personnel and places them in specific school districts at their request. While the number of students did grow in MD units, there was a significant drop in students in the SBH units. However, due to state regulations of range of student ages in the classroom, a low ratio of student-to-employee had to be maintained. No more than a 1-to-10 ration is allowed in these units. In 2006, the PCESC added one MD unit, one Speech Therapist, .4 of a Physical Therapist, and two Psychologists.

Total liabilities increased by \$352,933 in fiscal year 2006 and \$245,072 in fiscal year 2005. The increase is primarily due to increased instructional wages and benefits.

**Portage County Educational Service Center**  
*Management's Discussion and Analysis*  
For the Fiscal Years Ended June 30, 2006 and 2005

Table 2 shows the changes in net assets for fiscal years 2006, 2005, and 2004 as well as a listing of revenues and expenses.

**(Table 2)**  
**Governmental Activities**

	Governmental Activities		
	2006	2005	2004
<b>Revenues</b>			
<i>Program Revenues:</i>			
Charges for Services	\$ 5,593,217	\$ 5,095,278	\$ 3,115,204
Operating Grants	140,471	158,359	190,224
<i>General Revenue:</i>			
Grants and Entitlements, not restricted to to specific programs	1,460,337	1,229,045	2,896,414
Other	50,014	47,966	101,824
<i>Total Revenues</i>	7,244,039	6,530,648	6,303,666
<b>Program Expenses</b>			
Instruction	3,319,562	2,676,127	2,536,658
Support Services	4,265,080	4,073,058	3,926,781
Operation of Non-Instructional Services	6,601	1,450	386
Food Service Operations	904	0	0
Extracurricular Activities	15,755	14,415	16,590
<i>Total Expenses</i>	7,607,902	6,765,050	6,480,415
Increase (Decrease) in Net Assets	(363,863)	(234,402)	(176,749)
Net Assets Beginning of Year	1,229,736	1,464,138	1,640,887
Net Assets End of Year	\$ 865,873	\$ 1,229,736	\$ 1,464,138

**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 for fiscal years 2006, 2005 and 2004. That is, it identifies the cost of these services supported by charges for services and unrestricted grants and entitlements.

**Portage County Educational Service Center**  
*Management's Discussion and Analysis*  
For the Fiscal Years Ended June 30, 2006 and 2005

**(Table 3)**  
**Governmental Activities**

	2006		2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 3,319,562	\$ (490,378)	\$ 2,676,127	\$ (308,441)	\$ 2,536,658	\$ 642,744
Support Services:						
Pupil and Instructional Staff	3,465,869	(584,866)	3,234,766	(365,859)	3,131,614	(3,024,851)
Board of Governors, Administration, Fiscal and Business	733,878	(719,870)	776,815	(769,642)	690,142	(680,716)
Operation and Maintenance of						
Plant and Central	52,393	(52,393)	49,420	(48,948)	93,018	(91,845)
Pupil Transportation	12,940	(3,447)	12,057	(2,658)	12,007	(3,343)
Operation of Non-Instructional Services	6,601	(6,601)	1,450	(1,450)	386	(386)
Food Service Operations	904	(904)	0	0	0	0
Extracurricular Activities	15,755	(15,755)	14,415	(14,415)	16,590	(16,590)
<b>Total Expenses</b>	<b>\$ 7,607,902</b>	<b>\$ (1,874,214)</b>	<b>\$ 6,765,050</b>	<b>\$ (1,511,413)</b>	<b>\$ 6,480,415</b>	<b>\$ (3,174,987)</b>

Instruction and Student Support Services comprise 99% of governmental program expenses for 2006 and 99% of governmental expenses for 2005. Pupil transportation and the operation/maintenance of facilities accounts for less than 1% of governmental program expenses for 2006 and less than 1% of governmental program expenses for 2005.

The Educational Service Center is primarily funded through two sources: 1) State Foundation and 2) services provided to other school districts. The State of Ohio provides the Educational Service Center money by three calculations. First the State funds the Educational Service Center \$37.00 per ADM student of each school in Portage County. By law, the State provides this money for each student of a local school district and each city or exempted village if a city or county contract exists with the Educational Service Center. The Educational Service Center has a city or county contract with each city and exempted village district in Portage County. These city or county contracts are renewable every two years, with the current contracts effective until July 1, 2008. The State will also give an additional \$6.50 per student of each district. Again, this is according to individual school ADM. The last part of the State Foundation is for Supervisory Personnel. The Educational Service Center receives salary, retirement, and unit support for each certified, non-special education supervisory personnel. Each educational service center is limited to the number of funded supervisors that they can have based on ADM in the county. The amount received is based on the State Teachers Minimum Salary Schedule. It is important to note that the \$6.50/student and supervisory money funded to the Educational Service Center is deducted from each local, city, or exempted village foundation. The Educational Service Center also receives special education unit funding for Gifted Supervision and Preschool classroom units.

The Educational Service Center is also funded through services provided to other school districts. These services include but are not limited to Severe Behavioral Handicapped, Multiple Disabled, Integrated Preschool, Itinerant, and Alternative School classes. We also provide related services such as Physical Therapy, Occupational Therapy, Speech, Adapted Physical Education, and Psychological services. These programs are tuition based and billed after the services are provided.

**Portage County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Financial Analysis of the Government'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 Center's 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.

Information about the Educational Service Center's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$8.0 million in fiscal year 2006 and \$6.7 million in fiscal year 2005 and expenditures of \$7.6 million in fiscal year 2006 and \$6.8 million in fiscal year 2005. The net change in fund balance for both fiscal years 2006 and 2005 was most significant in the general fund, with an increase of \$.43 million in fiscal year 2006 and a decrease \$.08 million in fiscal year 2005.

***General Fund***

The general fund is the main operating fund of the Educational Service Center. At the end of fiscal year 2006, the balance in the general fund was \$.30 million, which is an increase of \$.43 million from fiscal year 2005 in which the deficit fund balance in the general fund was \$.13 million.

***Other Grant Special Revenue Fund***

In fiscal year 2006, the other grant special revenue fund was a major fund. The other grant special revenue fund is the Educational Service Center fund that accounts for the proceeds of specific revenue sources, except for state and federal grants that are legally restricted to expenditures for specified purposes. At the end of fiscal year 2006, the fund balance in the other grant special revenue fund was \$.06 million which is an increase of \$.04 million from fiscal year 2005 due mainly to a increase in specific revenue sources. Fiscal year 2006 was the first year that the other grant special revenue fund was a major fund.

***General Fund Budgeting Highlights***

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal years 2006 and 2005, the Educational Service Center amended its general fund budget numerous times. Many of the amendments are due to changes in program attendance, client-district needs and capital improvement decisions. The general fund is often called upon to advance funds to one project or another. During the course of the fiscal year, several federal and state grants will surface or material changes in existing ones will require budgetary action.

**Portage County Educational Service Center**  
*Management's Discussion and Analysis*  
For the Fiscal Years Ended June 30, 2006 and 2005

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For the general fund, the final budget basis revenue was \$6.64 million for fiscal year 2006 and \$6.60 million for fiscal year 2005; this was above the original budget estimates of \$6.61 million for fiscal year 2006 and \$6.58 million for fiscal year 2005. The main difference between the original and final estimates was due to an increase in income for programs such as special education and the Positive Behavior Support Program. The final budget basis expenditures estimate was \$6.62 million in fiscal year 2006 and \$6.75 million in fiscal year 2005; this was below the original budget estimates of \$7.07 million in fiscal year 2006 and \$6.94 in fiscal year 2005.

The decrease was due to the growth in programs and how well the year moved along. This increase in growth is due to more children entering our programs, which in effect is due to an increase in awareness of identifying children with special needs growth in the preschool age children in the county. Programs such as the Positive Behavior Support and Alternative Learning Setting were added during the year.

For the other grant special revenue fund, the final budget basis revenue was \$.92 million; this was above the original budget estimates of \$.88 million for fiscal year 2006. The final budget basis expenditures estimate was \$.89 million; this was below the original budget estimates of \$.90 million for fiscal year 2006.

***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal years 2006 and 2005, the Educational Service Center had \$96,863 invested in equipment in 2006 and \$127,910 in 2005.

Table 4 shows comparisons between fiscal years 2006, 2005, and 2004.

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

Furniture and Equipment	Governmental Activities		
	2006	2005	2004
	\$ 96,863	\$ 127,910	\$ 173,412

The \$31,047 and \$45,502 decreases respectively, in fiscal years 2006 and 2005 in net capital assets was mainly attributable to the current depreciation expense.

***Current Issues***

The Educational Service Center is primarily State funded. The Educational Service Center anticipates that the State will continue to fund at the \$37.00 per student level. That dollar amount has not changed for seven years and there is no anticipation for an increased amount. It is uncertain what its enrollment will be for future years. Electronic schools are becoming more popular as an alternative to traditional public education. As programs and course offerings are reduced, the Educational Service Center may lose more students through these alternative forms of education.

**Portage County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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State funding is crucial to this district. A very important aspect of state revenue is not just the publicized increases to local, city and exempted villages, but how the increases are restricted and how much are unrestricted. When local valuation increases, state funding decreases more than local funding increases. Local increases are limited to the effective mills and new construction. GAAP aid decreases if additional levies are passed. If funding is cut or restricted to local, city, and exempted village school districts, it limits the amount of business that these districts can request from the Educational Service Center.

***Contacting 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 Tom Morehouse, Treasurer of the Educational Service Center of Portage County, 326 East Main Street, Ravenna, Ohio 44266.



**Portage County Educational Service Center**

*Statement of Net Assets*

*June 30, 2006*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 505,376
Receivables:	
Accounts	175,158
Intergovernmental	1,388,986
Depreciable Capital Assets (Net)	<u>96,863</u>
<i>Total Assets</i>	<u>2,166,383</u>
<b>Liabilities</b>	
Accounts Payable	36,662
Accrued Wages and Benefits	742,654
Vacation Benefits Payable	30,574
Intergovernmental Payable	415,977
Long Term Liabilities:	
Due Within One Year	12,453
Due In More Than One Year	<u>62,190</u>
<i>Total Liabilities</i>	<u>1,300,510</u>
<b>Net Assets</b>	
Invested in Capital Assets	96,863
Restricted for:	
Capital Projects	47
Other Purposes	28,720
Unrestricted	<u>740,243</u>
<i>Total Net Assets</i>	<u><u>\$ 865,873</u></u>

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**

*Statement of Net Assets*

*June 30, 2005*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 556,500
Receivables:	
Accounts	11,622
Intergovernmental	1,481,281
Depreciable Capital Assets (Net)	<u>127,910</u>
<i>Total Assets</i>	<u>2,177,313</u>
<b>Liabilities</b>	
Accounts Payable	11,368
Accrued Wages and Benefits	613,699
Vacation Benefits Payable	42,962
Matured Compensated Absences Payable	15,857
Intergovernmental Payable	145,880
Long Term Liabilities:	
Due Within One Year	12,355
Due In More Than One Year	<u>105,456</u>
<i>Total Liabilities</i>	<u>947,577</u>
<b>Net Assets</b>	
Invested in Capital Assets	127,910
Restricted for:	
Capital Projects	47
Other Purposes	75,654
Unrestricted	<u>1,026,125</u>
<i>Total Net Assets</i>	<u>\$ 1,229,736</u>

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Current:				
Instruction:				
Regular	\$ 292,170	\$ 193,734	\$ 49,560	\$ (48,876)
Special	2,998,384	2,552,283	11,880	(434,221)
Other	29,008	20,057	1,670	(7,281)
Support services:				
Pupils	1,153,642	980,909	7,743	(164,990)
Instructional Staff	2,312,227	1,844,060	48,291	(419,876)
Board of Governors	51,090	0	0	(51,090)
Administration	523,015	2,174	11,834	(509,007)
Fiscal	134,627	0	0	(134,627)
Business	25,146	0	0	(25,146)
Operation and Maintenance of Plant	39,179	0	0	(39,179)
Pupil Transportation	12,940	0	9,493	(3,447)
Central	13,214	0	0	(13,214)
Operation of Non-Instructional Services	6,601	0	0	(6,601)
Food Service Operations	904	0	0	(904)
Extracurricular Activities	15,755	0	0	(15,755)
<b>Total Governmental Activities</b>	<b>\$ 7,607,902</b>	<b>\$ 5,593,217</b>	<b>\$ 140,471</b>	<b>(1,874,214)</b>
<b>General Revenues</b>				
Grants and Entitlements not Restricted to Specific Programs				1,460,337
Investment Earnings				15,506
Miscellaneous				34,508
Total General Revenues				1,510,351
Change in Net Assets				(363,863)
Net Assets Beginning of Year				1,229,736
Net Assets End of Year				<b>\$ 865,873</b>

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Current:				
Instruction:				
Regular	\$ 318,011	\$ 219,096	\$ 64,365	\$ (34,550)
Special	2,325,533	2,038,111	15,164	(272,258)
Other	32,583	28,025	2,925	(1,633)
Support services:				
Pupils	877,913	780,088	1,852	(95,973)
Instructional Staff	2,356,853	2,029,958	57,009	(269,886)
Board of Governors	40,924	0	0	(40,924)
Administration	494,676	0	7,173	(487,503)
Fiscal	218,013	0	0	(218,013)
Business	23,202	0	0	(23,202)
Operation and Maintenance of Plant	41,191	0	0	(41,191)
Pupil Transportation	12,057	0	9,399	(2,658)
Central	8,229	0	472	(7,757)
Operation of Non-Instructional Services	1,450	0	0	(1,450)
Extracurricular Activities	14,415	0	0	(14,415)
<b>Totals</b>	<b>\$ 6,765,050</b>	<b>\$ 5,095,278</b>	<b>\$ 158,359</b>	<b>(1,511,413)</b>
<b>General Revenues</b>				
Grants and Entitlements not Restricted to Specific Programs				1,229,045
Investment Earnings				4,568
Miscellaneous				43,398
Total General Revenues				1,277,011
Change in Net Assets				(234,402)
Net Assets Beginning of Year				1,464,138
Net Assets End of Year				<u>\$ 1,229,736</u>

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2006*

	General	Other Grants Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 416,795	\$ 60,120	\$ 28,461	\$ 505,376
Receivables:				
Accounts	1,841	173,317	0	175,158
Intergovernmental	1,381,846	2,250	4,890	1,388,986
<i>Total Assets</i>	<u>\$ 1,800,482</u>	<u>\$ 235,687</u>	<u>\$ 33,351</u>	<u>\$ 2,069,520</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 36,368	\$ 0	\$ 294	\$ 36,662
Accrued Wages and Benefits	588,512	154,142	0	742,654
Intergovernmental Payable	390,987	23,910	1,080	415,977
Deferred Revenue	485,316	2,250	206	487,772
<i>Total Liabilities</i>	<u>1,501,183</u>	<u>180,302</u>	<u>1,580</u>	<u>1,683,065</u>
<b>Fund Balances</b>				
Fund Balance:				
Reserved for Encumbrances	0	220	9	229
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	299,299	0	0	299,299
Special Revenue Funds	0	55,165	31,715	86,880
Capital Projects Funds	0	0	47	47
<i>Total Fund Balances</i>	<u>299,299</u>	<u>55,385</u>	<u>31,771</u>	<u>386,455</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,800,482</u>	<u>\$ 235,687</u>	<u>\$ 33,351</u>	<u>\$ 2,069,520</u>

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Assets Governmental Activities*  
*June 30, 2006*

Total Governmental Fund Balances	\$	386,455
 <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.		96,863
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.		
Grants	\$ 2,456	
Tuition	<u>485,316</u>	487,772
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
Compensated Absences	74,643	
Vacation Benefits Payable	<u>30,574</u>	<u>(105,217)</u>
Net Assets of Governmental Activities		<u>\$ 865,873</u>

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**

*Balance Sheet*

*Governmental Funds*

*June 30, 2005*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 481,426	\$ 75,074	\$ 556,500
Receivables:			
Accounts	11,622	0	11,622
Interfund	11,250	0	11,250
Intergovernmental	1,462,587	18,694	1,481,281
<i>Total Assets</i>	<u>\$ 1,966,885</u>	<u>\$ 93,768</u>	<u>\$ 2,060,653</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 8,885	\$ 2,483	\$ 11,368
Accrued Wages and Benefits	613,699	0	613,699
Vacation Benefits Payable	42,962	0	42,962
Mature Compensated Absences Payable	15,857	0	15,857
Interfund Payable	0	11,250	11,250
Intergovernmental Payable	144,133	1,747	145,880
Deferred Revenue	1,274,587	7,444	1,282,031
<i>Total Liabilities</i>	<u>2,100,123</u>	<u>22,924</u>	<u>2,123,047</u>
<b>Fund Balances</b>			
Fund Balance:			
Reserved for Encumbrances	25,888	409	26,297
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	(159,126)	0	(159,126)
Special Revenue Funds	0	70,388	70,388
Capital Projects Funds	0	47	47
<i>Total Fund Balances</i>	<u>(133,238)</u>	<u>70,844</u>	<u>(62,394)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,966,885</u>	<u>\$ 93,768</u>	<u>\$ 2,060,653</u>

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Assets Governmental Activities*  
*June 30, 2005*

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Total Governmental Fund Balances	\$	(62,394)
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*Amounts reported for governmental activities in the statement of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		127,910
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Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.

Grants	\$	7,444	
Tuition		<u>1,274,587</u>	1,282,031

Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.

Compensated Absences		<u>(117,811)</u>
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Net Assets of Governmental Activities	\$	<u><u>1,229,736</u></u>
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See accompanying notes to the basic financial statements.



**Portage County Educational Service Center**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2006*

	General	Other Grants Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Intergovernmental	\$ 1,337,165	\$ 0	\$ 149,309	\$ 1,486,474
Investment Income	15,506	0	0	15,506
Tuition and Fees	295,870	0	0	295,870
Charges for Services	0	1,034,773	0	1,034,773
Gifts and Donations	3,274	7,835	0	11,109
Contract Services Revenue	5,160,058	0	0	5,160,058
Miscellaneous	12,110	19,700	2,698	34,508
<i>Total Revenues</i>	<u>6,823,983</u>	<u>1,062,308</u>	<u>152,007</u>	<u>8,038,298</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	239,167	0	50,304	289,471
Special	2,320,562	659,935	12,390	2,992,887
Other	24,693	0	4,315	29,008
Support Services:				
Pupils	901,684	244,367	8,371	1,154,422
Instructional Staff	2,140,902	117,489	75,625	2,334,016
Board of Governors	51,090	0	0	51,090
Administration	477,201	2,157	11,702	491,060
Fiscal	119,981	0	0	119,981
Business	25,146	0	0	25,146
Operation and Maintenance of Plant	53,194	0	0	53,194
Pupil Transportation	3,450	0	9,490	12,940
Central	13,214	0	0	13,214
Operation of Non-Instructional Services	4,743	0	1,858	6,601
Food Service Operations	904	0	0	904
Extracurricular Activities	15,515	0	0	15,515
<i>Total Expenditures</i>	<u>6,391,446</u>	<u>1,023,948</u>	<u>174,055</u>	<u>7,589,449</u>
<i>Net Change in Fund Balance</i>	432,537	38,360	(22,048)	448,849
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>(133,238)</u>	<u>17,025</u>	<u>53,819</u>	<u>(62,394)</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 299,299</u>	<u>\$ 55,385</u>	<u>\$ 31,771</u>	<u>\$ 386,455</u>

See accompanying notes to the basic financial statements.

**Portage 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, 2006*

Net Change in Fund Balances - Total Governmental Funds	\$	448,849
 <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.		
Capital Asset Additions	\$ 14,359	
Current Year Depreciation	<u>(45,076)</u>	(30,717)
 Net effect of transactions involving sale of capital assets are not reflected in the funds.		
		(330)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Grants	(4,988)	
Tuition	<u>(789,271)</u>	(794,259)
 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	43,168	
Vacation Benefits Payable	<u>(30,574)</u>	<u>12,594</u>
 Change in Net Assets of Governmental Activities		
	\$	<u><u>(363,863)</u></u>

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Intergovernmental	\$ 1,367,873	\$ 153,115	\$ 1,520,988
Investment Income	4,568	0	4,568
Tuition and Fees	345,440	0	345,440
Contract Services Revenue	4,775,203	0	4,775,203
Miscellaneous	14,398	29,000	43,398
<i>Total Revenues</i>	<u>6,507,482</u>	<u>182,115</u>	<u>6,689,597</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	247,643	65,712	313,355
Special	2,293,866	16,088	2,309,954
Other	31,568	1,015	32,583
Support Services:			
Pupils	877,956	1,749	879,705
Instructional Staff	2,297,866	76,258	2,374,124
Board of Governors	40,924	0	40,924
Administration	463,934	7,613	471,547
Fiscal	226,488	0	226,488
Business	23,443	0	23,443
Operation and Maintenance of Plant	54,445	200	54,645
Pupil Transportation	2,733	9,324	12,057
Central	7,740	545	8,285
Operation of Non-Instructional Services	450	1,000	1,450
Extracurricular Activities	14,295	0	14,295
Capital outlay	450	0	450
<i>Total Expenditures</i>	<u>6,583,801</u>	<u>179,504</u>	<u>6,763,305</u>
<i>Net Change in Fund Balance</i>	(76,319)	2,611	(73,708)
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>(56,919)</u>	<u>68,233</u>	<u>11,314</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ (133,238)</u>	<u>\$ 70,844</u>	<u>\$ (62,394)</u>

See accompanying notes to the basic financial statements.

**Portage 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, 2005*

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Net Change in Fund Balances - Total Governmental Funds	\$	(73,708)
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*Amounts reported for governmental activities in the statement of activities are different because:*

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.

Capital Asset Additions	\$ 13,009	
Current Year Depreciation	<u>(58,313)</u>	(45,304)

Net effect of transactions involving sale of capital assets are not reflected in the funds.		(198)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Grants	7,444	
Tuition	<u>(166,393)</u>	(158,949)

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	8,352	
Intergovernmental Payable	<u>35,405</u>	<u>43,757</u>

Change in Net Assets of Governmental Activities	\$	<u><u>(234,402)</u></u>
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See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -*  
*Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Intergovernmental	\$ 1,382,043	\$ 1,382,042	\$ 1,378,056	\$ (3,986)
Investment Income	8,500	8,500	15,506	7,006
Tuition and Fees	5,160,378	5,160,378	4,705,520	(454,858)
Gifts and Donations	3,274	3,274	3,274	0
Miscellaneous	52,763	88,763	21,983	(66,780)
<i>Total Revenues</i>	<u>6,606,958</u>	<u>6,642,957</u>	<u>6,124,339</u>	<u>(518,618)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Instruction	2,729,838	2,637,828	2,547,717	90,111
Support Services:				
Pupils	924,378	911,196	870,624	40,572
Instructional Staff	2,553,372	2,165,396	2,034,589	130,807
Board of Governors	53,565	71,212	58,782	12,430
Administration	490,825	536,201	494,523	41,678
Fiscal	186,700	168,020	146,301	21,719
Business	23,896	28,790	23,499	5,291
Operation and Maintenance of Plant	47,700	58,220	55,962	2,258
Pupil Transportation	4,500	3,800	3,451	349
Central	36,395	13,150	13,115	35
Operation of Non-Instructional Services	0	0	4,743	(4,743)
Food Service Operations	300	5,520	0	5,520
Extracurricular Activities	23,000	17,010	16,822	188
<i>Total Expenditures</i>	<u>7,074,469</u>	<u>6,616,343</u>	<u>6,270,128</u>	<u>346,215</u>
Excess of Revenues Over (Under) Expenditures	(467,511)	26,614	(145,789)	(172,403)
<b>Other Financing Sources (Uses):</b>				
Refund of Prior Year Expenditures	895	895	895	0
Refund of Prior Year Receipts	(10,884)	0	0	0
Advances In	11,250	11,250	11,250	0
Advances Out	(14,648)	(13,083)	0	13,083
<i>Total Other Financing Sources (Uses)</i>	<u>(13,387)</u>	<u>(938)</u>	<u>12,145</u>	<u>13,083</u>
<i>Net Change in Fund Balance</i>	(480,898)	25,676	(133,644)	(159,320)
<i>Fund Balance (Deficit) at Beginning of Year</i>	455,009	455,009	455,009	0
Prior Year Encumbrances Appropriated	25,889	25,889	25,889	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 0</u>	<u>\$ 506,574</u>	<u>\$ 347,254</u>	<u>\$ (159,320)</u>

**Portage County Educational Service Center**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -*  
*Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Intergovernmental	\$ 1,422,361	\$ 1,422,361	\$ 1,404,236	\$ (18,125)
Investment Income	3,500	3,500	4,568	1,068
Tuition and Fees	5,114,676	5,134,676	4,973,534	(161,142)
Miscellaneous	35,796	35,796	38,350	2,554
<i>Total Revenues</i>	<u>6,576,333</u>	<u>6,596,333</u>	<u>6,420,688</u>	<u>(175,645)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Instruction	2,749,329	2,663,601	2,499,867	163,734
Support Services				
Pupils	915,518	924,074	832,460	91,614
Instructional Staff	2,435,597	2,331,772	2,219,403	112,369
Board of Governors	45,117	51,233	43,666	7,567
Administration	483,094	477,647	450,903	26,744
Fiscal	197,819	184,171	179,801	4,370
Business	25,682	24,342	23,318	1,024
Operation and Maintenance of Plant	59,693	54,157	54,157	0
Pupil Transportation	2,776	4,500	2,733	1,767
Central	9,717	17,757	15,111	2,646
Operation of Non-Instructional Services	694	450	450	0
Extracurricular Activities	15,964	15,651	14,293	1,358
<i>Total Expenditures</i>	<u>6,941,000</u>	<u>6,749,355</u>	<u>6,336,162</u>	<u>413,193</u>
Excess of Revenues Over (Under) Expenditures	(364,667)	(153,022)	84,526	237,548
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Assets	0	0	5,995	5,995
Refund of Prior Year Expenditures	0	0	11,071	11,071
Refund of Prior Year Receipts	0	(10,884)	0	10,884
Advances Out	0	(14,648)	(11,250)	3,398
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>(25,532)</u>	<u>5,816</u>	<u>31,348</u>
<i>Net Change in Fund Balance</i>	(364,667)	(178,554)	90,342	268,896
<i>Fund Balance (Deficit) at Beginning of Year</i>	344,617	344,617	344,617	0
Prior Year Encumbrances Appropriated	20,050	20,050	20,050	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 0</u>	<u>\$ 186,113</u>	<u>\$ 455,009</u>	<u>\$ 268,896</u>

**Portage County Educational Service Center**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual  
 Other Grant Special Revenue Fund  
 For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Charges for Services	\$ 865,956	\$ 865,956	\$ 865,956	\$ 0
Gifts and Donations	7,835	7,835	7,835	0
Miscellaneous	9,160	45,139	15,200	(29,939)
<i>Total Revenues</i>	<u>882,951</u>	<u>918,930</u>	<u>888,991</u>	<u>(29,939)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Instruction	573,300	573,152	539,352	33,800
Support Services				
Pupils	219,600	212,800	206,144	6,656
Instructional Staff	106,200	107,064	100,232	6,832
Administration	900	938	412	526
<i>Total Expenditures</i>	<u>900,000</u>	<u>893,954</u>	<u>846,140</u>	<u>47,814</u>
<i>Net Change in Fund Balance</i>	(17,049)	24,976	42,851	17,875
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>17,049</u>	<u>17,049</u>	<u>17,049</u>	<u>0</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 0</u>	<u>\$ 42,025</u>	<u>\$ 59,900</u>	<u>\$ 17,875</u>

**Portage County Educational Service Center**

*Statement of Fiduciary Net Assets*

*Agency Funds*

*June 30, 2006*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 7,933,597
Accounts Receivable	<u>202,577</u>
<i>Total Assets</i>	<u><u>\$ 8,136,174</u></u>
<b>Liabilities</b>	
Undistributed Monies	\$ 6,771,317
Claims Payable	<u>1,364,857</u>
<i>Total Liabilities</i>	<u><u>\$ 8,136,174</u></u>



**Portage County Educational Service Center**

*Statement of Fiduciary Net Assets*

*Agency Funds*

*June 30, 2005*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 7,105,386
<b>Liabilities</b>	
Undistributed Monies	\$ 5,645,177
Claims Payable	<u>1,460,209</u>
<i>Total Liabilities</i>	<u>\$ 7,105,386</u>

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Note 1 - Description of the Educational Service Center**

The Educational Service Center of Portage County (“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 makes up the Portage County Local School System. The Education Service Center is an administrative entity which operates under an elected Board of Governors (five members) as defined by Section 3311.05 of the Ohio Revised Code. The Board employs 98 certified and 78 noncertified employees.

***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service Center. For the Educational Service Center of Portage County, this includes 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 obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. The Educational Service Center has no component units.

The Educational Service Center participates in one jointly governed organization, the Stark Portage Area Computer Consortium (SPARCC), which is presented in Note 16 to the basic financial statements.

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

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. For the year ended June 30, 2005, the Educational Service Center implemented GASB Statement No. 40 “*Deposit and Investment Risk Disclosures.*”

**Portage County Educational Service Center**  
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**Note 2 - Summary of Significant Accounting Policies - (Continued)**

There was no effect on fund balances as a result of this implementation. Also, the Educational Service Center implemented GASB Technical Bulletin No. 2004-2 "*Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.*" For the year ended June 30, 2006, the Educational Service Center has implemented GASB Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*", GASB Statement No. 46, "*Net Assets Restricted by Enabling Legislation*", and Statement No. 47, "*Accounting for Termination Benefits.*"

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitation as to the period of time during which the benefits are offered.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefits plans.

There was no effect on fund balances as a result of the implementation of these new Standards. The following are the most significant of the Educational Service Center's accounting policies.

**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. The statements include the financial activities of the primary government, except for fiduciary funds.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
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**Note 2 - Summary of Significant Accounting Policies - (Continued)**

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 are 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 limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity is self-financing or draws from the general revenues of the Educational Service Center.

**Fund Financial Statements** During the fiscal 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 fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, 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 they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Educational Service Center's major governmental funds as of fiscal year 2006 and 2005; the other grant special revenue fund became a major fund in fiscal year 2006:

**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.

**Other Grant Special Revenue Fund** The other grant special revenue fund accounts for the proceeds of specific revenue sources, except for state and federal grants that are legally restricted to expenditures for specified purposes.

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

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Note 2 - Summary of Significant Accounting Policies - (Continued)**

**Proprietary Funds** Proprietary funds are used to account for ongoing activities which are similar to those often found in the private sector. The Educational Service Center has no proprietary funds.

**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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's only fiduciary funds are agency funds. The Educational Service Center's agency funds account for a local insurance consortium.

**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 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.

Agency funds do not report a measurement focus as they do not report operations.

**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. Proprietary and 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/unearned revenue, and in the presentation of expenses versus expenditures.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
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**Note 2 - Summary of Significant Accounting Policies - (Continued)**

**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. 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.

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

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

**Deferred/Unearned Revenue** Deferred/unearned 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/unearned revenue.

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the fund financial statements as intergovernmental revenue and an expenditure of food service operations. In addition, this amount is reported on the statement of activities as an expense with a like amount reported within the "operating grants and contributions" program revenue.

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.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Note 2 - Summary of Significant Accounting Policies - (Continued)**

***E. Cash and Cash Equivalents***

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

During the fiscal years 2006 and 2005, investments were limited to STAR Ohio, (the State Treasurer's Investment Pool) and repurchase agreements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006 and 2005. Repurchase agreements are reported at cost.

Following Ohio statutes, the Board has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal years 2006 and 2005 amounted to \$15,506 and \$4,568, respectively which includes \$2,390 for fiscal year 2006 and \$661 for fiscal year 2005 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 considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

***F. Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. 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 five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
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**Note 2 - Summary of Significant Accounting Policies - (Continued)**

All reported capital assets 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:

Description	Governmental Activities Estimated Lives
Furniture and Equipment	5 - 20 Years

**G. 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.

**H. Compensated Absences**

The Educational Service Center reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer 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. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid.



**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Note 2 - Summary of Significant Accounting Policies - (Continued)**

***I. 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 due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

***J. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. 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. Net assets restricted for other purposes primarily include extracurricular activities, operation and maintenance of plant, and special education.

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.

***K. 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.

***L. Interfund Activity***

Transfers between governmental activities on the government-wide statements are eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Note 2 - Summary of Significant Accounting Policies - (Continued)**

***M. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Governors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal years 2006 and 2005.

***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. Budgetary Data***

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The Educational Service Center adopts its budget for all funds, other than agency 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 Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

The 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 level within all funds.

The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Educational Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
For the Fiscal Years Ended June 30, 2006 and 2005

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**Note 2 - Summary of Significant Accounting Policies - (Continued)**

Encumbrances are part of the 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 fund financial statements, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

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

**Note 3 - Fund Deficits**

Fund balances and net assets at June 30, 2006 and 2005 included the following individual fund deficits:

	2006		2005	
	Deficit		Deficit	
	Fund Balance	Net Asset	Fund Balance	Net Asset
<i>Major Governmental Funds:</i>				
General Fund	N/A	N/A	\$ 133,238	N/A
<i>Nonmajor Governmental Funds:</i>				
Management Information System	296	296	N/A	N/A
Alternative Schools	784	784	1,158	1,158
Handicapped	N/A	N/A	541	N/A

The deficits in the governmental funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide transfers when cash is required, not when accruals occur.

**Note 4 - Budgetary Basis of Accounting**

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general fund and the other grant special revenue fund for fiscal year 2006 and for the general fund for fiscal year 2005 on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
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**Note 4 - Budgetary Basis of Accounting - (Continued)**

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund.

	<b>Net Change in Fund Balance</b>	
	2006 General	2005 General
GAAP Basis	\$ 432,537	\$ (76,319)
Net Adjustment for Revenue Accruals	(687,499)	(69,728)
Net Adjustment for Expenditure Accruals	190,331	262,277
Adjustment for Encumbrances	(69,013)	(25,888)
Budget Basis	\$ (133,644)	\$ 90,342

The other grant special revenue fund did not become a major fund until fiscal year 2006, so there is no comparative data for 2005.

	<b>Net Change in Fund Balance</b>	
	2006 Other Grant Fund	
GAAP Basis	\$ 38,360	
Net Adjustment for Revenue Accruals	(173,317)	
Net Adjustment for Expenditure Accruals	178,028	
Adjustment for Encumbrances	(220)	
Budget Basis	\$ 42,851	

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Note 5 - 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
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 this division are made only through eligible institutions;

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
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**Note 5 - Deposits and Investments - (Continued)**

6. The State Treasurer's investment pool (STAR Ohio);
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.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the Educational Service Center's 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 public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

**Cash on Hand** At fiscal year end 2006 and 2005, 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** At fiscal year-end 2006 and 2005, the carrying amount of the Educational Service Center's deposits was \$(523,132) and \$357,737, respectively, and the bank balance was \$514,889 and \$831,347, respectively. A liability was not recorded for the negative carrying amount of deposits at June 30, 2006 because there was no actual overdraft, due to the "zero-balance" nature of the Educational Service Center's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments." Of the bank balance:

1. \$200,000 of the bank balance was covered by depository insurance for both fiscal year 2006 and 2005; and
2. \$314,889 for 2006 and \$631,347 for 2005 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.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
For the Fiscal Years Ended June 30, 2006 and 2005

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**Note 5 - Deposits and Investments - (Continued)**

***Investments***

Investments are reported at fair value. As of June 30, 2006 and 2005, the Educational Service Center had the following investments:

	2006	
	Fair Value	Investment Maturities (in months) 0-6
Bank One Repurchase Agreement	\$ 417,867	\$ 417,867
Key Bank Repurchase Agreement	5,713,660	5,713,660
STAROhio	2,830,478	2,830,478
	<b>\$ 8,962,005</b>	<b>\$ 8,962,005</b>
Totals	<b>\$ 8,962,005</b>	<b>\$ 8,962,005</b>

	2005	
	Fair Value	Investment Maturities (in months) 0-6
Key Bank Repurchase Agreement	\$ 4,586,301	\$ 4,586,301
STAROhio	2,717,748	2,717,748
	<b>\$ 7,304,049</b>	<b>\$ 7,304,049</b>
Totals	<b>\$ 7,304,049</b>	<b>\$ 7,304,049</b>

**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 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, 2006 and 2005 included sweep accounts, and STAROhio. STAROhio is rated AAA by Standard & Poor's. The Educational Service Center's investments in federal agency securities that underlie the Educational Service Center's repurchase agreement were rated Aaa by Moody's Investor Services.

**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 percent of the Educational Service Center's investments are in STAROhio. This investment is 31.6% for fiscal year 2006 and 37.2% for fiscal year 2005 of the Educational Service Center's total investments for the amounts listed above. More than 5 percent of the Educational Service Center's investments are in the repurchase agreements. This investment is 68.4% for fiscal year 2006 and 62.8% for fiscal year 2005.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
For the Fiscal Years Ended June 30, 2006 and 2005

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**Note 6 - Interfund Transfers**

There were no transfers made during fiscal year 2006 or 2005.

**Note 7 - Interfund Balances**

There were no interfund receivables or payables during fiscal year 2006. For fiscal year 2005, on the fund financial statements, the general fund reported an interfund receivable of \$11,250. This receivable is made up of the following: the miscellaneous federal grant fund had an interfund payable of \$11,250.

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2005 all interfund loans outstanding were repaid in fiscal year 2006.

**Note 8 - Receivables**

Receivables at June 30, 2006 and 2005 consisted of accounts and intergovernmental entitlements and grants and interfund. All receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	2006 Amount	2005 Amount
<i>General Fund</i>	\$ 1,381,846	\$ 1,462,587
<i>Nonmajor Governmental Funds</i>		
Other Grants	2,250	0
IDEA Preschool Grant for the Handicapped	4,890	7,444
Miscellaneous Federal Grant Fund	0	11,250
<i>Total Nonmajor Governmental Funds</i>	7,140	18,694
<i>Total Intergovernmental Receivables</i>	\$ 1,388,986	\$ 1,481,281

**Note 9 - Capital Assets**

Capital asset activity for the fiscal years ended June 30, 2006 and 2005 was as follows:

	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
<b>Governmental Activities</b>				
<i>Capital Assets, being depreciated:</i>				
Furniture and Equipment	\$ 434,234	\$ 14,359	\$ (746)	\$ 447,847
Less Accumulated Depreciation	(306,324)	(45,076)	416	(350,984)
Governmental Activities Capital Assets, Net	\$ 127,910	\$ (30,717)	\$ (330)	\$ 96,863



**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
For the Fiscal Years Ended June 30, 2006 and 2005

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**Note 9 - Capital Assets - (Continued)**

	<u>Balance</u> 06/30/04	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 06/30/05
<b>Governmental Activities</b>				
<i>Capital Assets, being depreciated:</i>				
Furniture and Equipment	\$ 421,883	\$ 13,009	\$ (658)	\$ 434,234
Less Accumulated Depreciation	<u>(248,471)</u>	<u>(58,313)</u>	<u>460</u>	<u>(306,324)</u>
Governmental Activities Capital Assets, Net	<u>\$ 173,412</u>	<u>\$ (45,304)</u>	<u>\$ (198)</u>	<u>\$ 127,910</u>

Depreciation expense was charged to governmental functions as follows for fiscal year 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Instruction:		
Regular	\$ 4,287	\$ 6,147
Special	12,169	20,860
Support Services:		
Pupil	175	175
Instructional Staff	1,523	762
Administration	25,575	29,156
Fiscal	1,106	1,093
Extracurricular	<u>241</u>	<u>120</u>
Total Depreciation	<u>\$ 45,076</u>	<u>\$ 58,313</u>

**Note 10 - Risk Management**

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. There have been no settlements paid in excess of insurance.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Note 10 - Risk Management - (Continued)**

**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 to 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 Portage County Educational Service Center is the fiscal agent of the Consortium.

**Note 11 - Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from employee contracts, 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.

**Note 12 - 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, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' Web site, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Note 12 - Pension Plans - (Continued)**

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. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58% of annual covered salary was the portion used to fund pension obligations. 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 required contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$209,865, \$192,691, and \$193,283, respectively; 100% has been contributed for fiscal years 2006, 2005, and 2004.

***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 times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. 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 Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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 years ended June 30, 2006 and 2005, plan members were required to contribute 10% of their annual covered salaries. The Educational Service Center was required to contribute 14%; 13% was the portion used to fund pension obligations. 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 employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Note 12 - Pension Plans - (Continued)**

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$469,360, \$408,661, and \$425,958, respectively; 100% has been contributed for fiscal years 2006, 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 and 2005 were \$5,423 and \$9, respectively made by the Educational Service Center and \$13,795 and \$7,981, respectively made by the plan members.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, which ever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

**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. The Board's liability is 6.2% of wages paid.

**Note 13 - Postemployment Benefits**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll. For the fiscal years ended June 30, 2006 and 2005, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$38,408 and \$32,540 during the 2006 and 2005, respectively.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. The health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Note 13 - Postemployment Benefits - (Continued)**

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2006, employer contributions to fund health care benefits were 3.42% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$65,187 and for fiscal year 2005 it equaled \$61,005.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. Health care benefits are financed on a pay-as-you-go basis. Net health care costs for year ending June 30, 2006, were \$158,751,207. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS had approximately 59,492 participants currently receiving health care benefits.

**Note 14 - 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, 2006 or 2005.

**B. Litigation**

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

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Note 15 - Long Term Obligations**

The changes in the Educational Service Center's long-term obligations during fiscal years 2006 and 2005 were as follows:

		<b>2006</b>				
		Outstanding June 30, 2005	Additions	Deductions	Outstanding June 30, 2006	Due Within One Year
Compensated Absences		\$ 117,811	\$ 0	\$ 43,168	\$ 74,643	\$ 12,453
		<b>2005</b>				
		Outstanding June 30, 2004	Additions	Deductions	Outstanding June 30, 2005	Due Within One Year
Compensated Absences		\$ 126,163	\$ 7,505	\$ 15,857	\$ 117,811	\$ 12,355

Compensated Absences will be paid from the fund in which the employee's wages are paid. In prior years, this has primarily been the general fund.

**Note 16 - 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 Educational 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 Stark County Education Service Center, which serves as fiscal agent, located at 2100 38<sup>th</sup> Street, NW, Canton, Ohio 44709.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2006 and 2005*

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**Note 17 - Deferred Revenue**

Deferred revenue at June 30, 2006 and 2005 consisted of the following:

	2006 Balance Sheet	2005 Balance Sheet
	<u>                    </u>	<u>                    </u>
Tuitions Receivable	\$ 485,316	\$ 1,274,587
Grants Receivable	2,456	7,444
Deferred Revenue	<u>\$ 487,772</u>	<u>\$ 1,282,031</u>



## **Julian & Grube, Inc.**

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### **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Governing Board  
Portage County Educational Service Center  
326 E. Main Street  
Ravenna, OH 44266

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Portage County Educational Service Center, Portage County, Ohio, as of and for the fiscal years ended June 30, 2006 and 2005 which collectively comprise Portage County Educational Service Center's basic financial statements, and have issued our report thereon dated February 19, 2008. 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Portage County Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

#### Compliance and Other Matters

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

We noted a certain matter that we reported to the management of Portage County Educational Service Center in a separate letter dated February 19, 2008.



Governing Board  
Portage County Educational Service Center

This report is intended solely for the information and use of the management and the Governing Board of Portage County Educational Service Center and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
February 19, 2008





**Mary Taylor, CPA**  
Auditor of State

**PORTAGE COUNTY EDUCATIONAL SERVICE CENTER**

**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  
APRIL 29, 2008**