

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

**BASIC FINANCIAL STATEMENTS  
(AUDITED)**

***FOR THE FISCAL YEAR ENDED  
JUNE 30, 2008***

**TOM MOREHOUSE, TREASURER**





# Mary Taylor, CPA

Auditor of State

Governing Board  
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, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 27, 2009

**This Page is Intentionally Left Blank.**

**PORTAGE COUNTY EDUCATIONAL SERVICE CENTER**

BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

|   | <b>Page</b> |
|---|-------------|
| Independent Auditor’s Report .....  | 1 - 2       |
| Management’s Discussion and Analysis .....  | 3 - 9       |
| Government-wide Financial Statements:   |             |
| Statement of Net Assets at June 30, 2008 .....  | 10          |
| Statement of Activities for the Fiscal Year Ended June 30, 2008 .....   | 11          |
| Fund Financial Statements:  |             |
| Balance Sheet - Governmental Funds at<br>June 30, 2008 .....  | 12          |
| Reconciliation of Total Governmental Fund Balances to Net Assets Governmental<br>Activities at June 30, 2008 .....  | 13          |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental<br>Funds For the Fiscal Year Ended June 30, 2008 .....  | 14          |
| Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement<br>of Activities For the Fiscal Year Ended June 30, 2008 .....  | 15          |
| Statement of Fiduciary Assets and Liabilities - Agency Funds<br>at June 30, 2008 .....  | 16          |
| Notes to the Basic Financial Statements.....  | 17 - 35     |
| Supplementary Information .....   | 36          |
| Schedule of Revenues, Expenditures and Changes in Fund Balance -<br>Budget (Non-GAAP Basis) and Actual For the Fiscal Year Ended June 30, 2008  |             |
| General Fund .....  | 37          |
| Other Grant Special Revenue Fund .....  | 38          |
| Notes to the Supplementary Information .....  | 39 - 40     |
| Report on Internal Control Over Financial Reporting and on Compliance<br>and Other Matters Based on an Audit of Financial Statements Performed<br>in Accordance With <i>Government Auditing Standards</i> ..... | 41 - 42     |

**This Page is Intentionally Left Blank.**



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

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### 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, Portage County, Ohio, as of and for the fiscal year ended June 30, 2008, 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, Portage County, Ohio, as of June 30, 2008, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 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.

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.

For the budgetary comparison information and notes, we have applied certain limited procedures, which consisted principally of inquiries 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.  
December 29, 2008



## **Educational Service Center of Portage County**

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

---

The management's discussion and analysis of the Educational Service Center of Portage County's (Educational Service Center) financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Educational Service Center's 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.

#### ***Financial Highlights***

Key financial highlights for June 30, 2008 are as follows:

- General Revenues accounted for \$1.3 million in revenue or 13.5% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$8.1 million, or 86.5% of total revenues of \$9.4 million.
- Total program expenses were \$9.3 million.
- In total, net assets increased \$141,093 from 2007.

#### ***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 year 2008?" 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.

## **Educational Service Center of Portage County**

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

---

### ***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, the general fund and the other grant special revenue 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. Data from the other governmental funds are combined into a single, aggregated presentation.

The Educational Service Center adopts an annual appropriated budget for its general fund and the other grant special revenue fund. A budgetary comparison statement has been provided for the general fund and the other grant special revenue fund to demonstrate compliance with this budget.

The governmental fund financial statements begin on page 12.

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

The fiduciary fund financial statements begin on page 16.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 17.

**Supplementary Information** – The Educational Service Center has presented budgetary comparison schedules for the general fund and the other grant special revenue fund as supplementary information on pages 37 through 38 of this report.

**Educational Service Center of Portage County**

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

---

***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 fiscal year 2008 as compared to fiscal year 2007:

**(Table 1)  
Net Assets**

|   | <u>Governmental Activities</u> |                   |
|---|--------------------------------|-------------------|
|   | <u>2008</u>                    | <u>2007</u>       |
| <b>Assets</b>                           |                                |                   |
| Current and Other Assets                | \$ 1,797,162                   | \$ 1,647,223      |
| Capital Assets                          | <u>118,446</u>                 | <u>145,124</u>    |
| Total Assets                            | 1,915,608                      | 1,792,347         |
| <b>Liabilities</b>                      |                                |                   |
| Long-Term Liabilities                   | 110,951                        | 109,054           |
| Other Liabilities                       | <u>1,014,343</u>               | <u>1,034,072</u>  |
| Total Liabilities                       | 1,125,294                      | 1,143,126         |
| <b>Net Assets</b>                       |                                |                   |
| Invested in Capital Assets, Net of Debt | 87,601                         | 104,933           |
| Restricted                              | 46,095                         | 148,712           |
| Unrestricted (Deficit)                  | <u>656,618</u>                 | <u>395,576</u>    |
| Total Net Assets                        | <u>\$ 790,314</u>              | <u>\$ 649,221</u> |

Total assets increased by \$123,261. The increase in current and other assets of \$149,939 was mainly due to an increase in intergovernmental receivables. 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 10-to-1 ratio is allowed in these units. Total liabilities decreased by \$17,832 which was mainly caused by a decrease to intergovernmental payables.

**Educational Service Center of Portage County**

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

Table 2 shows the changes in net assets for fiscal year 2008 as compared to fiscal year 2007.

**(Table 2)  
Governmental Activities**

|  | Governmental Activities |              |
|--|-------------------------|--------------|
|  | 2008                    | 2007         |
| <b><i>Revenues</i></b>                                       |                         |              |
| <i>Program Revenues:</i>                                     |                         |              |
| Charges for Services   | \$ 7,999,508            | \$ 7,437,946 |
| Operating Grants   | 150,658                 | 343,906      |
| <i>General Revenue:</i>                                      |                         |              |
| Grants and Entitlements, not restricted to specific programs | 1,248,464               | 782,879      |
| Investment Earnings and Miscellaneous                        | 20,652                  | 31,319       |
| <i>Total Revenues</i>  | 9,419,282               | 8,596,050    |
| <b><i>Program Expenses</i></b>                               |                         |              |
| Instruction  | 3,952,770               | 3,732,878    |
| Support Services   | 5,297,305               | 5,042,346    |
| Food Service Operations                                      | 9,411                   | 13,213       |
| Extracurricular Activities                                   | 16,999                  | 22,129       |
| Interest and fiscal charges                                  | 1,704                   | 2,136        |
| <i>Total Expenses</i>  | 9,278,189               | 8,812,702    |
| Increase (Decrease) in Net Assets                            | 141,093                 | (216,652)    |
| Net Assets Beginning of Year                                 | 649,221                 | 865,873      |
| Net Assets End of Year                                       | \$ 790,314              | \$ 649,221   |

Charges for services increased \$561,562 over 2007 due to an increase in special education services provided to member districts. Operating grants decreased \$193,248 over 2007. Grants and entitlements not restricted to specific programs increased \$465,585 over 2007. Program expenses in governmental activities increased \$465,487, which can be attributed to increased wage schedules.

***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 year 2008 compared to fiscal year 2007. That is, it identifies the cost of these services supported by charges for services and unrestricted grants and entitlements.

**Educational Service Center of Portage County**

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

**(Table 3)  
Governmental Activities**

|  | 2008                     |                        | 2007                     |                        |
|--|--------------------------|------------------------|--------------------------|------------------------|
|  | Total Cost<br>of Service | Net Cost<br>of Service | Total Cost<br>of Service | Net Cost<br>of Service |
| Instruction  | \$ 3,952,770             | \$ (230,376)           | \$ 3,732,878             | \$ (308,022)           |
| Support Services:  |                          |                        |                          |                        |
| Pupil and Instructional Staff                              | 4,184,941                | (405,787)              | 3,997,353                | (294,812)              |
| Board of Governors, Administration,<br>Fiscal and Business | 1,038,553                | (391,160)              | 966,434                  | (312,827)              |
| Operation and Maintenance of                               |                          |                        |                          |                        |
| Plant and Central  | 61,533                   | (61,449)               | 74,620                   | (74,510)               |
| Pupil Transportation                                       | 12,278                   | (11,137)               | 3,939                    | (3,519)                |
| Food Service Operations                                    | 9,411                    | (9,411)                | 13,213                   | (12,895)               |
| Extracurricular Activities                                 | 16,999                   | (16,999)               | 22,129                   | (22,129)               |
| Interest and Fiscal Charges                                | 1,704                    | (1,704)                | 2,136                    | (2,136)                |
| Total Expenses   | <u>\$ 9,278,189</u>      | <u>\$ (1,128,023)</u>  | <u>\$ 8,812,702</u>      | <u>\$ (1,030,850)</u>  |

Instruction and Student Support Services comprise 88% of governmental program expenses. Pupil transportation and the operation/maintenance of facilities accounts for less than 1% of governmental program expenses.

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 which has now been reduced as noted in the Current Issues section of this MD&A. 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. 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 units 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.

**Educational Service Center of Portage County**

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

---

***Financial Analysis of the Government's 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 the year-end.

Information about the Educational Service Center's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$9.4 million and expenditures of \$9.3 million in fiscal year 2008. The net change in fund balance for fiscal year 2008 was most significant in the general fund, with an increase of \$308,663 in fiscal year 2008.

***General Fund***

The general fund is the main operating fund of the Educational Service Center. At the end of fiscal year 2008, the balance in the general fund was \$393,789, which was an increase of \$308,663 from fiscal year 2007 in which the fund balance in the general fund was \$85,126. This is due to decreased budgeted expenditures.

***Other Grant Special Revenue Fund***

In fiscal year 2008, 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 2008, the deficit fund balance in the other grant special revenue fund was \$260,467, which is an insignificant decrease of \$47,237.

***Capital Assets***

At the end of fiscal year 2008, the Educational Service Center had \$118,446 invested in furniture and equipment.

Table 4 shows comparisons between fiscal years 2008 and 2007.

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

|                         | Governmental Activities |            |
|-------------------------|-------------------------|------------|
|                         | 2008                    | 2007       |
| Furniture and Equipment | \$ 118,446              | \$ 145,124 |
| Total                   | \$ 118,446              | \$ 145,124 |

The \$26,678 decrease in fiscal year 2008 in net capital assets was mainly attributable to current depreciation exceeding additional purchases. See Note 7 for more information regarding capital assets.

## **Educational Service Center of Portage County**

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

---

### ***Debt***

At year-end, the Educational Service Center had a capitalized lease as an outstanding long-term obligation. The lease obligations outstanding at year end totaled \$30,845. The lease balance consisted of telephone equipment scheduled to mature during the fiscal year 2011. See Note 14 to the basic financial statements for detail on the Educational Service Center's long-term obligations.

### ***Current Issues***

The Educational Service Center is State and locally funded. By statute the State is supposed to fund the Educational Service Center at \$37 per student. However, in March of 2008 the State indicated that they would be reducing the funding to all Educational Service Centers by over 9%. The reduction was actually 9.5%, or \$33.49 per student. The Educational Service Center anticipates that the State will continue to fund at the \$33.49 per student level. This resulted in an \$82,000 loss of anticipated revenue for the Educational Service Center. That \$37 amount had 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.

State funding is crucial to this educational service center. 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.

**Educational Service Center of Portage County**

*Statement of Net Assets*

*June 30, 2008*

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>                                   |                                    |
| Equity in pooled cash and cash equivalents      | \$ 938,271                         |
| Receivables:                                    |                                    |
| Intergovernmental                               | 858,891                            |
| Depreciable capital assets (net)                | <u>118,446</u>                     |
| <i>Total Assets</i>                             | <u>1,915,608</u>                   |
| <b>Liabilities</b>                              |                                    |
| Accounts payable                                | 48,443                             |
| Accrued wages and benefits                      | 867,401                            |
| Vacation benefits payable                       | 16,357                             |
| Intergovernmental payable                       | 72,662                             |
| Operating lease payable                         | 9,480                              |
| Long term liabilities:                          |                                    |
| Due within one year                             | 31,569                             |
| Due in more than one year                       | <u>79,382</u>                      |
| <i>Total Liabilities</i>                        | <u>1,125,294</u>                   |
| <b>Net Assets</b>                               |                                    |
| Invested in capital assets, net of related debt | 87,601                             |
| Restricted for:                                 |                                    |
| Capital projects                                | 47                                 |
| Other purposes                                  | 46,048                             |
| Unrestricted                                    | <u>656,618</u>                     |
| <i>Total Net Assets</i>                         | <u>\$ 790,314</u>                  |

See accompanying notes to the basic financial statements.



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

|                                      | Program Revenues    |                                      |  | Net (Expense) Revenue<br>and Changes in Net Assets |
|--------------------------------------|---------------------|--------------------------------------|--|--|
|                                      | Expenses            | Charges for<br>Services<br>and Sales | Operating<br>Grants and<br>Contributions | Governmental<br>Activities                         |
| <b>Governmental Activities</b>       |                     |                                      |  |  |
| Current:                             |                     |                                      |  |  |
| Instruction:                         |                     |                                      |  |  |
| Regular                              | \$ 164,062          | \$ 102,009                           | \$ 52,112                                | \$ (9,941)   |
| Special                              | 3,758,016           | 3,531,383                            | 9,472                                    | (217,161)  |
| Adult continuing                     | 720                 | 0                                    | 97                                       | (623)  |
| Other                                | 29,972              | 27,321                               | 0  | (2,651)  |
| Support services:                    |                     |                                      |  |  |
| Pupils                               | 1,788,094           | 1,670,725                            | 2,071                                    | (115,298)  |
| Instructional staff                  | 2,396,847           | 2,028,132                            | 78,226                                   | (290,489)  |
| Board of governors                   | 77,243              | 70,411                               | 0  | (6,832)  |
| Administration                       | 647,157             | 569,527                              | 7,455                                    | (70,175)   |
| Fiscal                               | 232,300             | 0                                    | 0  | (232,300)  |
| Business                             | 81,853              | 0                                    | 0  | (81,853)   |
| Operation and maintenance of plant   | 60,834              | 0                                    | 0  | (60,834)   |
| Pupil transportation                 | 12,278              | 0                                    | 1,141                                    | (11,137)   |
| Central                              | 699                 | 0                                    | 84                                       | (615)  |
| Food service operations              | 9,411               | 0                                    | 0  | (9,411)  |
| Extracurricular activities           | 16,999              | 0                                    | 0  | (16,999)   |
| Interest and fiscal charges          | 1,704               | 0                                    | 0  | (1,704)  |
| <i>Total Governmental Activities</i> | <u>\$ 9,278,189</u> | <u>\$ 7,999,509</u>                  | <u>\$ 150,658</u>                        | <u>(1,128,022)</u>                                 |

**General Revenues**

|   |                   |
|---|-------------------|
| Grants and entitlements not restricted to specific programs | 1,248,464         |
| Investment earnings   | 20,387            |
| Miscellaneous   | 265               |
| <b>Total general revenues</b>                               | <u>1,269,116</u>  |
| Change in net assets  | 141,094           |
| Net assets beginning of year                                | <u>649,221</u>    |
| Net assets end of year                                      | <u>\$ 790,315</u> |

See accompanying notes to the basic financial statements.

**Educational Service Center of Portage County**

*Balance Sheet*

*Governmental Funds*

*June 30, 2008*

|  | General             | Other Grant<br>Special<br>Revenue | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-----------------------------------|--------------------------------|--------------------------------|
| <b>Assets</b>                              |                     |                                   |                                |                                |
| Equity in pooled cash and cash equivalents | \$ 794,636          | \$ 90,070                         | \$ 53,565                      | \$ 938,271                     |
| Receivables:                               |                     |                                   |                                |                                |
| Interfund                                  | 15,387              | 0                                 | 0                              | 15,387                         |
| Intergovernmental                          | 843,504             | 0                                 | 15,387                         | 858,891                        |
| <i>Total Assets</i>                        | <u>\$ 1,653,527</u> | <u>\$ 90,070</u>                  | <u>\$ 68,952</u>               | <u>\$ 1,812,549</u>            |
| <b>Liabilities and Fund Balances</b>       |                     |                                   |                                |                                |
| <b>Liabilities</b>                         |                     |                                   |                                |                                |
| Accounts payable                           | \$ 46,142           | \$ 374                            | \$ 1,927                       | \$ 48,443                      |
| Accrued wages and benefits                 | 525,888             | 335,146                           | 6,367                          | 867,401                        |
| Interfund payable                          | 0                   | 0                                 | 15,387                         | 15,387                         |
| Operating lease payable                    | 9,480               | 0                                 | 0                              | 9,480                          |
| Intergovernmental payable                  | 56,262              | 15,017                            | 1,383                          | 72,662                         |
| Deferred revenue                           | 621,966             | 0                                 | 15,387                         | 637,353                        |
|  |                     |                                   |                                | 0                              |
| <i>Total Liabilities</i>                   | <u>1,259,738</u>    | <u>350,537</u>                    | <u>40,451</u>                  | <u>1,650,726</u>               |
| <b>Fund Balances</b>                       |                     |                                   |                                |                                |
| Reserved for encumbrances                  | 43,446              | 0                                 | 9,776                          | 53,222                         |
| Unreserved:                                |                     |                                   |                                |                                |
| Undesignated (deficit), reported in:       |                     |                                   |                                |                                |
| General fund                               | 350,343             | 0                                 | 0                              | 350,343                        |
| Special revenue funds                      | 0                   | (260,467)                         | 18,678                         | (241,789)                      |
| Capital projects funds                     | 0                   | 0                                 | 47                             | 47                             |
| <i>Total Fund Balances</i>                 | <u>393,789</u>      | <u>(260,467)</u>                  | <u>28,501</u>                  | <u>161,823</u>                 |
| <i>Total Liabilities and Fund Balances</i> | <u>\$ 1,653,527</u> | <u>\$ 90,070</u>                  | <u>\$ 68,952</u>               | <u>\$ 1,812,549</u>            |

See accompanying notes to the basic financial statements.

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

|   |    |         |            |
|---|----|---------|------------|
| Total Governmental Fund Balances  | \$ |         | 161,823    |
| <br><i>Amounts reported for governmental activities in the<br/>statement of net assets are different because:</i>             |    |         |            |
| Capital assets used in governmental activities are not financial<br>resources and therefore, are not reported in the funds.   |    |         | 118,446    |
| Other long-term assets are not available to pay for current-<br>period expenditures and therefore, are deferred in the funds. |    |         |            |
| Grants  | \$ | 15,387  |            |
| Tuition   |    | 621,966 | 637,353    |
| Long-term liabilities are not due and<br>payable in the current period and therefore, are not reported<br>in the funds.       |    |         |            |
| Compensated Absences  |    | 80,106  |            |
| Capital Lease Payable   |    | 30,845  |            |
| Vacation Benefits Payable   |    | 16,357  | (127,308)  |
| Net Assets of Governmental Activities:  |    |         | \$ 790,314 |

See accompanying notes to the basic financial statements.

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

|  | General           | Other Grant<br>Special<br>Revenue | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|-----------------------------------|--------------------------------|--------------------------------|
| <b>Revenues:</b>                                   |                   |                                   |                                |                                |
| Intergovernmental                                  | \$ 1,237,313      | \$ 0                              | \$ 145,672                     | \$ 1,382,985                   |
| Investment income                                  | 20,387            | 0                                 | 0                              | 20,387                         |
| Tuition and fees                                   | 5,082,721         | 0                                 | 0                              | 5,082,721                      |
| Gifts and donations                                | 750               | 0                                 | 0                              | 750                            |
| Contract services revenue                          | 273,485           | 2,633,444                         | 0                              | 2,906,929                      |
| Miscellaneous                                      | 125               | 0                                 | 140                            | 265                            |
| <i>Total Revenues</i>                              | <u>6,614,781</u>  | <u>2,633,444</u>                  | <u>145,812</u>                 | <u>9,394,037</u>               |
| <b>Expenditures:</b>                               |                   |                                   |                                |                                |
| Current:   |                   |                                   |                                |                                |
| Instruction:                                       |                   |                                   |                                |                                |
| Regular  | 113,559           | 0                                 | 51,391                         | 164,950                        |
| Special  | 2,020,778         | 1,711,230                         | 10,515                         | 3,742,523                      |
| Adult continuing                                   | 0                 | 0                                 | 720                            | 720                            |
| Other  | 29,972            | 0                                 | 0                              | 29,972                         |
| Support services:                                  |                   |                                   |                                |                                |
| Pupils   | 1,041,153         | 731,563                           | 11,709                         | 1,784,425                      |
| Instructional staff                                | 1,970,125         | 237,888                           | 186,629                        | 2,394,642                      |
| Board of governors                                 | 77,243            | 0                                 | 0                              | 77,243                         |
| Administration                                     | 629,794           | 0                                 | 6,979                          | 636,773                        |
| Fiscal   | 231,732           | 0                                 | 0                              | 231,732                        |
| Business   | 81,853            | 0                                 | 0                              | 81,853                         |
| Operation and maintenance of plant                 | 60,860            | 0                                 | 0                              | 60,860                         |
| Pupil transportation                               | 11,192            | 0                                 | 1,086                          | 12,278                         |
| Central  | 615               | 0                                 | 84                             | 699                            |
| Food service operations                            | 9,312             | 0                                 | 99                             | 9,411                          |
| Extracurricular activities                         | 16,880            | 0                                 | 0                              | 16,880                         |
| Debt service:                                      |                   |                                   |                                |                                |
| Principal retirement                               | 9,346             | 0                                 | 0                              | 9,346                          |
| Interest and fiscal charges                        | 1,704             | 0                                 | 0                              | 1,704                          |
| <i>Total Expenditures</i>                          | <u>6,306,118</u>  | <u>2,680,681</u>                  | <u>269,212</u>                 | <u>9,256,011</u>               |
| <i>Net Change in Fund Balance</i>                  | 308,663           | (47,237)                          | (123,400)                      | 138,026                        |
| <i>Fund Balance (Deficit) at Beginning of Year</i> | <u>85,126</u>     | <u>(213,230)</u>                  | <u>151,901</u>                 | <u>23,797</u>                  |
| <i>Fund Balance (Deficit) at End of Year</i>       | <u>\$ 393,789</u> | <u>\$ (260,467)</u>               | <u>\$ 28,501</u>               | <u>\$ 161,823</u>              |

See accompanying notes to the basic financial statements.

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

|  |                 |                |
|--|-----------------|----------------|
| Net Change in Fund Balances - Total Governmental Funds   | \$              | 138,026        |
| <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  | \$ 2,500        |                |
| Current Year Depreciation  | <u>(27,530)</u> | (25,030)       |
|  |                 |                |
| Net effect of transactions involving sale of capital assets are not reflected in the funds.  |                 | (1,648)        |
|  |                 |                |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.   |                 |                |
| Grants   | 15,387          |                |
| Tuition  | <u>9,858</u>    | 25,245         |
|  |                 |                |
| Repayment of leases principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.   |                 |                |
| Capital Leases   |                 | 9,346          |
|  |                 |                |
| 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   | (11,243)        |                |
| Vacation Benefits Payable  | <u>6,397</u>    | <u>(4,846)</u> |
|  |                 |                |
| Change in Net Assets of Governmental Activities  | \$              | <u>141,093</u> |

See accompanying notes to the basic financial statements.

**Educational Service Center of Portage County**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2008*

---

---

|  | <u>Agency</u>        |
|--|----------------------|
| <b>Assets</b>                              |                      |
| Equity in pooled cash and cash equivalents | \$ 13,054,344        |
| Intergovernmental receivable               | <u>171,312</u>       |
| <i>Total Assets</i>                        | <u>\$ 13,225,656</u> |
| <b>Liabilities</b>                         |                      |
| Undistributed monies                       | \$ 10,755,074        |
| Accounts payable                           | 7,137                |
| Claims payable                             | <u>2,463,445</u>     |
| <i>Total Liabilities</i>                   | <u>\$ 13,225,656</u> |

See accompanying notes to the basic financial statements.

## **Educational Service Center of Portage County**

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

---

### **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 105 certified and 94 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 15 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 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. 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.

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

## Educational Service Center of Portage County

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

---

### **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.

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 two categories of funds: governmental and fiduciary.

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

**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.



## Educational Service Center of Portage County

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

---

***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.

***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 fund is an agency fund. The Educational Service Center's agency fund accounts 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 governmental-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 revenue, and in the presentation of expenses versus expenditures.

**Educational Service Center of Portage County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

---

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

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

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

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

***E. 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 year 2008, investments were limited to STAROhio, (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.

**Educational Service Center of Portage County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

---

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2008. 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 year 2008 amounted to \$20,387, which includes \$3,756 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 two 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.

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:

| <u>Description</u>      | <u>Governmental<br/>Activities<br/>Estimated Lives</u> |
|-------------------------|--|
| Furniture and Equipment | 5-20 Years   |

***G. Interfund Balances***

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

**Educational Service Center of Portage County**

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

---

***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.

***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 instructional staff, pupils, and administration.

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

**Educational Service Center of Portage County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

---

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.

***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 year 2008.

***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***

Although not legally required, the Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes 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 Center), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the Educational Service Center requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Educational Service Center was discretionary, the Educational Service Center continued to have its Board approve appropriations and estimated resources. 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. Although the level of budgetary control was established at the fund level of expenditures, the Educational Service Center has elected to present the budgetary statement comparisons at the fund and function level. Budgetary information for the general fund and the other grant special revenue fund has been presented as supplementary information to the basic financial statements.

## **Educational Service Center of Portage County**

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

---

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.

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

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

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

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

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

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

Implementation of these GASB Statements did not affect the presentation of the financial statements of the Educational Service Center; however, certain disclosures related to postemployment benefits (see Note 11) have been modified to conform to the new reporting requirements.

**Educational Service Center of Portage County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

---

**Note 3 – Fund Deficits**

Fund balances at June 30, 2008 included the following individual fund deficits:

|                                     | <u>2008</u>    |
|-------------------------------------|----------------|
|                                     | <u>Deficit</u> |
|                                     | Fund Balance   |
| <i>Major Governmental Funds:</i>    |                |
| Other Grant                         | \$ 260,467     |
| <i>Nonmajor Governmental Funds:</i> |                |
| Alternative Schools                 | 6,977          |

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 - Deposits and Investments**

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

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

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

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

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

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

## Educational Service Center of Portage County

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

---

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;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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 uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of uninsured 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 2008, 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.



**Educational Service Center of Portage County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

**Deposits** At fiscal year-end 2008, the carrying amount of the Educational Service Center's deposits was \$297,196 and the bank balance was \$665,112. Of the bank balance:

1. \$200,000 of the bank balance was covered by depository insurance for fiscal year 2008; and
2. \$465,112 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

**Investments**

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

|                               | 2008                 |  |
|-------------------------------|----------------------|--|
|                               | Fair<br>Value        | Investment<br>Maturities<br>(in months)<br>0-6 |
| Chase Repurchase Agreement    | \$ 647,118           | \$ 647,118                                     |
| Key Bank Repurchase Agreement | 9,951,964            | 9,951,964                                      |
| STAROhio                      | 3,096,237            | 3,096,237                                      |
| Totals                        | <u>\$ 13,695,319</u> | <u>\$ 13,695,319</u>                           |

**Interest Rate Risk:** The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Educational Service Center's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the Educational Service Center.

**Credit Risk:** The Educational Service Center's investments at June 30, 2008 included sweep accounts, and STAROhio. STAROhio is rated AAA by Standard & Poor's. The sweep accounts (repurchase agreements) are not rated by Standard & Poor's or Moody's Investments Services. The federal agency securities that underlie the repurchase agreement were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

**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 22.6 percent for fiscal year 2008 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 77.4 percent for fiscal year 2008.

**Educational Service Center of Portage County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

---

**Custodial Credit Risk:** For an investment, custodial credit risk is the risk that in the event of failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Educational Service Center's \$10,599,082 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the Educational Service Center's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The Educational Service Center's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

**Note 5 - Interfund Balances**

For fiscal year 2008, on the fund financial statements, the general fund reported an interfund receivable of \$15,387. This receivable is made up of the following: the miscellaneous state grants fund had an interfund payable of \$15,387.

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, 2008 all interfund loans outstanding were repaid in fiscal year 2009.

**Note 6 – Receivables**

Receivables at June 30, 2008 consisted of 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:

|  | 2008<br>Amount             |
|--|----------------------------|
| <i>Major Governmental Funds</i>            |                            |
| General Fund                               | \$ 843,504                 |
| <i>Nonmajor Governmental Funds</i>         |                            |
| Miscellaneous State Grants                 | 15,387                     |
| <i>Agency Fund</i>                         |                            |
| Employee Benefits                          | <u>171,312</u>             |
| <i>Total Intergovernmental Receivables</i> | <u><u>\$ 1,030,203</u></u> |

**Educational Service Center of Portage County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

**Note 7 - Capital Assets**

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

|   | <u>Balance<br/>6/30/2007</u> | <u>Additions</u>   | <u>Deletions</u>  | <u>Balance<br/>6/30/2008</u> |
|---|------------------------------|--------------------|-------------------|------------------------------|
| <b>Governmental Activities</b>              |                              |                    |                   |                              |
| <i>Capital Assets, being depreciated:</i>   |                              |                    |                   |                              |
| Furniture and Equipment                     | \$ 524,341                   | \$ 2,500           | \$ (31,577)       | \$ 495,264                   |
| Less Accumulated Depreciation               | <u>(379,217)</u>             | <u>(27,530)</u>    | <u>29,929</u>     | <u>(376,818)</u>             |
| Governmental Activities Capital Assets, Net | <u>\$ 145,124</u>            | <u>\$ (25,030)</u> | <u>\$ (1,648)</u> | <u>\$ 118,446</u>            |

Depreciation expense was charged to governmental functions as follows for fiscal year 2008:

|                     | <u>2008</u>      |
|---------------------|------------------|
| Instruction:        |                  |
| Regular             | \$ 765           |
| Special             | 6,723            |
| Support Services:   |                  |
| Pupil               | 152              |
| Instructional Staff | 3,705            |
| Administration      | 15,392           |
| Fiscal              | 673              |
| Extracurricular     | <u>120</u>       |
| Total Depreciation  | <u>\$ 27,530</u> |

**Note 8 – 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 in the past three years.

**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

## **Educational Service Center of Portage County**

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

---

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

### **Note 9 – Compensated Absences**

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

Plan members are required to contribute 10 percent 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 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year ended 2007 the amount was 10 percent and for fiscal year ended 2006 the amount was 10.58 percent. 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 contributions to SERS for pension obligations for the fiscal years ended June 30,

## **Educational Service Center of Portage County**

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

---

2008, 2007, and 2006 were \$168,288, \$161,575, and \$158,598, respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006.

### ***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 defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (888) 227-7877, 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 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001 were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2008, 2007, and 2006 were \$602,941, \$568,693, and \$499,305, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 was \$8,437 made by the Educational Service Center and \$11,677 made by the plan members.

## **Educational Service Center of Portage County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

---

### ***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 percent of wages paid.

### **Note 11 - Postemployment Benefits**

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

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

Ohio law authorized STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to Health Care Stabilization Fund for the years ended June 30, 2008, 2007 and 2006. The Educational Service Center's contributions for health care for fiscal years ended June 30, 2008, 2007 and 2006 were \$46,380, \$43,746 and \$38,408, respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006.

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2008, the health care allocation was 4.18 percent, at June 30, 2007 the health care allocation was 3.32 percent and at June 30, 2006, the health care allocation was 3.42 percent. The Educational Service Center's contributions for the years ended June 30, 2008, 2007 and 2006 were \$76,795, \$53,643 and \$51,267, respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006.

**Educational Service Center of Portage County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2008*

---

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2007 (the latest information available), the minimum compensation level was established at \$35,800. For the Educational Service Center during fiscal year 2008 this amounted to \$24,369.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2008, the actuarially required allocation was .66 percent and for fiscal year 2007 the required allocation was .68 percent. The Educational Service Center's contributions for the fiscal years 2008 and 2007 were \$12,126 and \$10,987, respectively.

**Note 12 – Contingencies**

**A. Grants**

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

**B. Litigation**

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

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

**Note 13 – Long Term Obligations**

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

|                                 | <b>2008</b>                  |           |            |                              |                        |
|---------------------------------|------------------------------|-----------|------------|------------------------------|------------------------|
|                                 | Outstanding<br>June 30, 2007 | Additions | Deductions | Outstanding<br>June 30, 2008 | Due Within<br>One Year |
| <b>Governmental Activities:</b> |                              |           |            |                              |                        |
| Capital Lease                   | \$ 40,191                    | \$ 0      | \$ 9,346   | \$ 30,845                    | \$ 9,799               |
| Compensated Absences            | 68,863                       | 48,229    | 36,986     | 80,106                       | 21,770                 |
| Total Governmental Activities   |                              |           |            |                              |                        |
| Long-Term Liabilities           | \$ 109,054                   | \$ 48,229 | \$ 46,332  | \$ 110,951                   | \$ 31,569              |

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. Capital leases will be paid from the general fund.

**Note 14 – 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.

**Note 15 – Capitalized Leases**

Capital lease obligations relate to telephone equipment which is leased under long-term agreements. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standard No. 13 “Accounting for Leases”. \$49,106 of furniture and equipment has been recorded as capital assets relating to capital leases with \$9,822 of accumulated depreciation as of June 30, 2008. Capital lease payments in the general fund have been reclassified and are reflected as debt service in the basic financial statements for the general fund. These expenditures are reflected as program/function expenditures on a budgetary basis. The following schedule of future minimum lease payments required under the capital leases and the present value of minimum lease payments as of June 30, 2008 is summarized below.



**Educational Service Center of Portage County**

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

---

| Fiscal Year<br>Ending June 30, | Capital Lease    |                 |                  |
|--------------------------------|------------------|-----------------|------------------|
|                                | Principal        | Interest        | Total            |
| 2009                           | \$ 9,799         | \$ 1,250        | \$ 11,050        |
| 2010                           | 10,275           | 776             | 11,050           |
| 2011                           | 10,771           | 279             | 11,050           |
| Total                          | <u>\$ 30,845</u> | <u>\$ 2,305</u> | <u>\$ 33,150</u> |

**Note 16 – Operating Leases**

The Educational Service Center (the “Lessee”) has entered into an operating lease, for a five year period commencing on July 1, 2006. The lease is with David D. Y. Lan and Lily S. C. Lan (the “Lessor”) for facilities to house the offices and functions of the Educational Service Center. Current year lease payments were \$43,800. Rental cost should be recognized on the straight-line basis over the term of the lease because no economic justification can be offered for the rental increases. Should the Lessee need to terminate the lease early due to a reduction or termination of funding, it shall notify the Lessor of its decision to terminate the lease early, in writing, ninety days in advance of the new termination date.

*Supplementary Information*

**Educational Service Center of Portage County**  
*Schedule of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2008*

|  | Budgeted Amounts |                     |                   | Variance<br>with Final Budget<br>Positive<br>(Negative) |
|--|------------------|---------------------|-------------------|---|
|  | Original         | Final               | Actual            |   |
| <b>Revenues:</b>                                   |                  |                     |                   |   |
| Intergovernmental                                  | \$ 1,370,904     | \$ 1,328,445        | \$ 1,237,313      | \$ (91,132)   |
| Investment income                                  | 30,000           | 30,000              | 20,387            | (9,613)   |
| Tuition and fees                                   | 5,882,711        | 5,498,658           | 5,221,986         | (276,672)   |
| Charges for services                               | 0                | 0                   | 750               | 750   |
| Contract service revenue                           | 0                | 0                   | 0                 | 0   |
| Miscellaneous                                      | 0                | 0                   | 125               | 125   |
| <i>Total Revenues</i>                              | <u>7,283,615</u> | <u>6,857,103</u>    | <u>6,480,561</u>  | <u>(376,542)</u>  |
| <b>Expenditures:</b>                               |                  |                     |                   |   |
| Current:   |                  |                     |                   |   |
| Instruction  | 2,917,000        | 2,244,699           | 2,240,461         | 4,238   |
| Support services:                                  |                  |                     |                   |   |
| Pupils   | 1,510,000        | 1,050,773           | 1,043,702         | 7,071   |
| Instructional staff                                | 2,106,000        | 1,999,958           | 1,973,389         | 26,569  |
| Board of governors                                 | 110,500          | 80,434              | 80,434            | 0   |
| Administration                                     | 891,000          | 743,552             | 672,819           | 70,733  |
| Fiscal   | 223,500          | 234,055             | 234,055           | 0   |
| Business   | 97,000           | 81,456              | 81,456            | 0   |
| Operation and maintenance of plant                 | 72,000           | 64,009              | 65,509            | (1,500)   |
| Pupil transportation                               | 20,000           | 17,152              | 18,342            | (1,190)   |
| Central  | 2,000            | 3,292               | 602               | 2,690   |
| Food service operations                            | 12,000           | 9,450               | 9,450             | 0   |
| Extracurricular Activities                         | 19,000           | 16,606              | 16,606            | 0   |
| <i>Total Expenditures</i>                          | <u>7,980,000</u> | <u>6,545,436</u>    | <u>6,436,825</u>  | <u>108,611</u>  |
| Excess of Revenues Over (Under) Expenditures       | (696,385)        | 311,667             | 43,736            | (267,931)   |
| <b>Other Financing Sources (Uses):</b>             |                  |                     |                   |   |
| Refund of prior year expenditures                  | 0                | 0                   | 150               | 150   |
| Advances in  | 0                | 0                   | 6,300             | 6,300   |
| Advances out                                       | (20,000)         | (15,387)            | (15,387)          | 0   |
| <i>Total Other Financing Sources (Uses)</i>        | <u>(20,000)</u>  | <u>(15,387)</u>     | <u>(8,937)</u>    | <u>6,450</u>  |
| <i>Net Change in Fund Balance</i>                  | (716,385)        | 296,280             | 34,799            | (261,481)   |
| <i>Fund Balance (Deficit) at Beginning of Year</i> | 687,442          | 687,442             | 687,442           | 0   |
| Prior Year Encumbrances Appropriated               | 28,943           | 28,943              | 28,943            | 0   |
| <i>Fund Balance (Deficit) at End of Year</i>       | <u>\$ 0</u>      | <u>\$ 1,012,665</u> | <u>\$ 751,184</u> | <u>\$ (261,481)</u>                                     |

**Educational Service Center of Portage County**  
*Schedule 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, 2008*

|  | Budgeted Amounts |                     | Actual           | Variance<br>with Final Budget<br>Positive<br>(Negative) |
|--|------------------|---------------------|------------------|---|
|  | Original         | Final               |                  |   |
| <b>Revenues:</b>                                   |                  |                     |                  |   |
| Contract services revenue                          | \$ 2,243,060     | \$ 2,238,060        | \$ 2,654,244     | \$ 416,184  |
| <i>Total Revenues</i>                              | <u>2,243,060</u> | <u>2,238,060</u>    | <u>2,654,244</u> | <u>416,184</u>  |
| <b>Expenditures:</b>                               |                  |                     |                  |   |
| Current:   |                  |                     |                  |   |
| Instruction  | 1,450,643        | 1,702,213           | 1,653,730        | 48,483  |
| Support services:                                  |                  |                     |                  |   |
| Pupils   | 630,732          | 739,200             | 719,033          | 20,167  |
| Instructional staff                                | 212,326          | 263,470             | 242,051          | 21,419  |
| <i>Total Expenditures</i>                          | <u>2,293,700</u> | <u>2,704,883</u>    | <u>2,614,814</u> | <u>90,069</u>   |
| Excess of Revenues Over (Under) Expenditures       | (50,640)         | (466,823)           | 39,430           | 506,253   |
| <b>Other Financing Sources (Uses):</b>             |                  |                     |                  |   |
| Advances out                                       | (6,300)          | (6,300)             | (6,300)          | 0   |
| <i>Total Other Financing Sources (Uses)</i>        | <u>(6,300)</u>   | <u>(6,300)</u>      | <u>(6,300)</u>   | <u>0</u>  |
| <i>Net Change in Fund Balance</i>                  | (56,940)         | (473,123)           | 33,130           | 506,253   |
| <i>Fund Balance (Deficit) at Beginning of Year</i> | 56,940           | 56,940              | 56,940           | 0   |
| <i>Fund Balance (Deficit) at End of Year</i>       | <u>\$ 0</u>      | <u>\$ (416,183)</u> | <u>\$ 90,070</u> | <u>\$ 506,253</u>                                       |

## **Educational Service Center of Portage County**

*Notes to the Supplemental Information*

*For Fiscal Year Ended June 30, 2008*

---

### **Note 1 - Budgetary Process**

The Educational Service Center is not required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes.

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 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.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Board during the fiscal year.

### **Note 2 - 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 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general fund and other grant fund 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:

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).
4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

**Educational Service Center of Portage County**

*Notes to the Supplemental Information  
For Fiscal Year Ended June 30, 2008*

---

**Net Change in Fund Balance**

|   | <u>General</u>   |
|---|------------------|
| GAAP Basis                              | \$ 308,663       |
| Net Adjustment for Revenue Accruals     | (134,070)        |
| Advance In                              | (15,387)         |
| Advance Out                             | 6,300            |
| Net Adjustment for Expenditure Accruals | (87,261)         |
| Adjustment for Encumbrances             | <u>(43,446)</u>  |
| Budget Basis                            | <u>\$ 34,799</u> |

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

**Net Change in Fund Balance**

|   | <u>Other Grants Fund</u> |
|---|--------------------------|
| GAAP Basis                              | \$ (47,237)              |
| Net Adjustment for Revenue Accruals     | 20,800                   |
| Advance Out                             | (6,300)                  |
| Net Adjustment for Expenditure Accruals | <u>65,867</u>            |
| Budget Basis                            | <u>\$ 33,130</u>         |



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

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### **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 the Portage County Educational Service Center, Portage County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise the Portage County Educational Service Center's basic financial statements and have issued our report thereon dated December 29, 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 the Portage County Educational Service Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Portage County Educational Service Center's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Portage County Educational Service Center's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Portage County Educational Service Center's internal control.

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

Governing Board  
Portage County Educational Service Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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*.

This report is intended solely for the information and use of the management and the Governing Board of the 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.  
December 29, 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  
MARCH 12, 2009**