

Mary Taylor, CPA
Auditor of State

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Stark County Educational Service Center
Stark County
2100 38th Street N.W.
Canton, Ohio 44709

To the Governing Board:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2009, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Service Center's basic financial statements. The Federal Awards Receipts and Expenditures Schedule provides additional information and is not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

February 10, 2009

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

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

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets of governmental activities decreased \$256,554, which represents a 7.12% decrease from 2007.
- General revenues accounted for \$3,799,609 in revenue or 19.09% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$16,107,284 or 80.91% of total revenues of \$19,906,893.
- The ESC had \$20,163,447 in expenses related to governmental activities; \$16,107,284 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$3,799,609 were not adequate to provide for these programs.
- The ESC has two major governmental funds, the general fund and Title VI-B fund. The general fund had \$15,083,682 in revenues and \$15,002,535 in expenditures. During fiscal 2008, the general fund's fund balance increased \$81,147 from \$300,664 to \$381,811.
- The Title VI-B fund had \$869,879 in revenues and \$928,868 in expenditures. During fiscal 2008, the Title VI-B fund's fund balance decreased \$58,989. The Title VI-B fund did not have a balance at the beginning of the fiscal year.

Using these Basic Financial Statements (BFS)

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

The statement of net assets and statement of activities provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund and Title VI-B fund are by far the most significant funds, and the only governmental funds reported as major funds.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the ESC as a whole, the financial position of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include increased or decreased services desired by school districts, state budget cuts, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, and other operations.

The ESC's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental funds begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the general fund and Title VI-B fund.

Governmental Funds

Most of the ESC'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 financial statements provide a detailed short-term view of the ESC'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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-18 of this report.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

Reporting the ESC's Fiduciary Responsibilities

The ESC is the fiscal agent of the area A-site, Stark/Portage Area Computer Consortium ("SPARCC") and the Stark County Schools Council of Government. This activity is presented as fiduciary funds. The ESC also maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary net assets on page 19. The investment trust fund activities for fiscal 2008 are also reported in a separate statement of changes in fiduciary net assets on page 20. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic 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. These notes to the basic financial statements can be found on pages 21-42 of this report.

The ESC as a Whole

The statement of net assets provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net assets for 2008 and 2007.

	Net Assets	
	Governmental Activities 2008	Governmental Activities 2007
<u>Assets</u>		
Current and other assets	\$ 4,783,921	\$ 4,744,788
Capital assets, net	<u>1,712,702</u>	<u>1,727,114</u>
Total assets	<u>6,496,623</u>	<u>6,471,902</u>
<u>Liabilities</u>		
Current liabilities	2,297,573	2,269,972
Long-term liabilities	<u>853,230</u>	<u>599,556</u>
Total liabilities	<u>3,150,803</u>	<u>2,869,528</u>
<u>Net assets</u>		
Invested in capital assets	1,712,702	1,727,114
Restricted	925,659	1,132,141
Unrestricted	<u>707,459</u>	<u>743,119</u>
Total net assets	<u>\$ 3,345,820</u>	<u>\$ 3,602,374</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the ESC's assets exceeded liabilities by \$3,345,820. Of this total, \$707,459 is unrestricted in use.

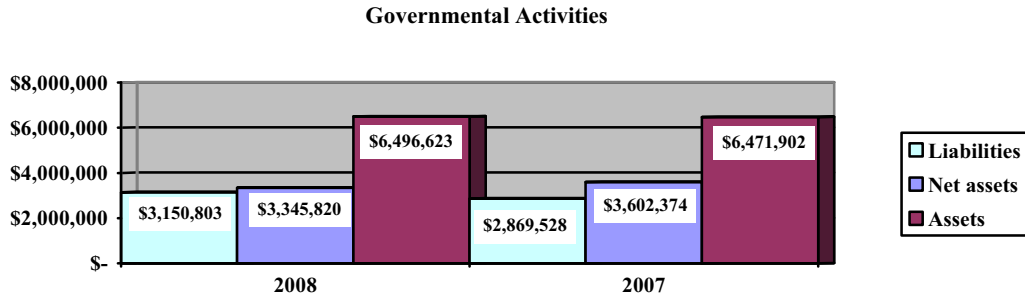
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STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

At year-end, capital assets represented 26.36% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets at June 30, 2008 were \$1,712,702. These capital assets are used to provide the ESC's services and are not available for future spending.

A portion of the ESC's net assets, \$925,659, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$707,459 may be used to meet the ESC's ongoing obligations to the students and creditors.

The graph below presents the ESC's assets, liabilities and net assets at June 30, 2008 and 2007.



The table below shows the change in net assets for fiscal years 2008 and 2007.

Change in Net Assets

	Governmental Activities 2008	Governmental Activities 2007
Revenues		
Program revenues:		
Charges for services and sales	\$ 11,327,389	\$ 11,547,572
Operating grants and contributions	4,692,940	6,944,150
Capital grants and contributions	86,955	-
General revenues:		
Grants and entitlements	3,297,918	3,574,348
Investment earnings	167,582	237,329
Other	334,109	373,292
Total revenues	19,906,893	22,676,691

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**STARK COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

Change in Net Assets (Continued)

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 227,472	\$ 706,881
Special	5,723,252	5,425,328
Vocational	-	251,163
Adult/continuing	21,549	21,426
Support services:		
Pupil	1,173,434	1,100,828
Instructional staff	7,789,355	8,806,762
Board of education	20,657	37,517
Administration	3,334,814	3,334,815
Fiscal	377,554	582,281
Business	915,433	945,102
Operations and maintenance	258,103	122,739
Pupil transportation	4,979	4,186
Central	241,087	240,789
Extracurricular activities	24,086	1,990
Food service operations	<u>51,672</u>	<u>3,185</u>
Total expenses	<u>20,163,447</u>	<u>21,584,992</u>
Change in net assets	(256,554)	1,091,699
Net assets at beginning of year	<u>3,602,374</u>	<u>2,510,675</u>
Net assets at end of year	<u>\$ 3,345,820</u>	<u>\$ 3,602,374</u>

Governmental Activities

Net assets of the ESC's governmental activities decreased \$256,554. Total governmental expenses of \$20,163,447 were offset by program revenues of \$16,107,284 and general revenues of \$3,799,609. Program revenues supported 79.88% of the total governmental expenses.

Governmental activities revenue decreased approximately \$2.8 million. This is due to the ESC receiving no intergovernmental grant revenue for teacher development in 2008, as compared to approximately \$1.8 million in fiscal year 2007. Also, the general fund received approximately \$1.5 million less in contracted fees for services provided to other entities as compared to the prior year.

The decrease in contracted fees for services provided to other entities also led to the decrease in governmental activities expenditures as this revenue drives many of the services the ESC provides.

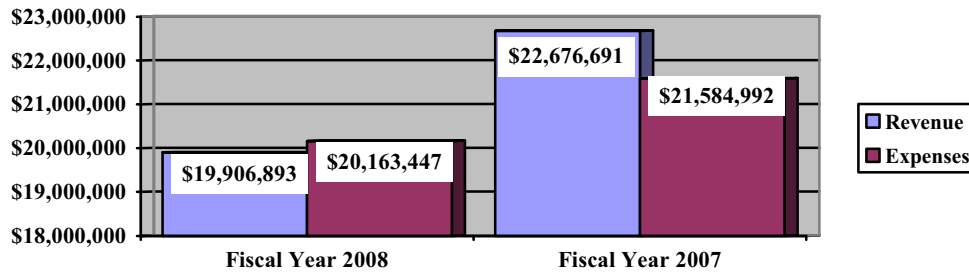
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 56.91% of total governmental revenue.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2008 and 2007.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements, and other general revenues not restricted to a specific program.

Governmental Activities

	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Program expenses				
Instruction:				
Regular	\$ 227,472	\$ (31,136)	\$ 706,881	\$ (41,672)
Special	5,723,252	749,969	5,425,328	617,295
Vocational	-	-	251,163	530
Adult/continuing	21,549	4,703	21,426	(5,985)
Support services:				
Pupil	1,173,434	1,142,570	1,100,828	1,081,795
Instructional staff	7,789,355	776,132	8,806,762	(300,036)
Board of education	20,657	20,657	37,517	37,517
Administration	3,334,814	57,817	3,334,815	347,085
Fiscal	377,554	356,022	582,281	258,213
Business	915,433	905,087	945,102	945,102
Operations and maintenance	258,103	7,500	122,739	118,739
Pupil transportation	4,979	3,190	4,186	4,186
Central	241,087	37,993	240,789	41,652
Extracurricular activities	24,086	24,086	1,990	1,990
Food service operations	51,672	1,573	3,185	(13,141)
Total	<u>\$ 20,163,447</u>	<u>\$ 4,056,163</u>	<u>\$ 21,584,992</u>	<u>\$ 3,093,270</u>

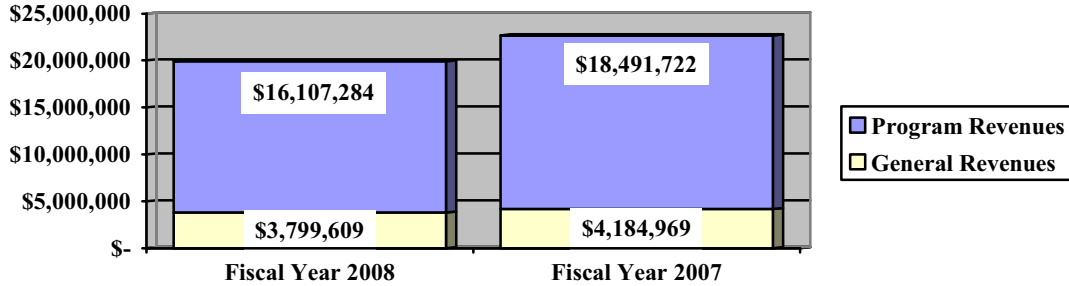
For all governmental activities, program revenue support is 79.88%. The primary support of the ESC is contracted fees for services provided to other districts.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The graph below presents the ESC's governmental activities revenue for fiscal years 2008 and 2007.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on page 15) reported a combined fund balance of \$553,702, which is less than last year's balance of \$1,378,486. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	Fund Balance (Deficit) <u>June 30, 2008</u>	Fund Balance <u>June 30, 2007</u>	Increase (Decrease)
General	\$ 381,811	\$ 300,664	\$ 81,147
Title VI-B	(58,989)	-	(58,989)
Other governmental	<u>230,880</u>	<u>1,077,822</u>	<u>(846,942)</u>
Total	<u>\$ 553,702</u>	<u>\$ 1,378,486</u>	<u>\$ (824,784)</u>

General Fund

The ESC's general fund balance increased \$81,147. The fund balance in the general fund increased primarily due to expenditures decreasing more than decreasing revenues. Revenues of the general fund decreased due to less contracted fees for services to other entities being received during fiscal year 2008. This decrease in services provided to other entities also led to a decrease in general fund expenditures. The decrease in interest revenue was due to decreasing interest rates on investments for fiscal year 2008.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The table that follows assists in illustrating the financial activities and fund balance of the general fund. Certain 2007 amounts have been reclassified in order to conform with 2008 presentation.

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Tuition	\$ 6,404,887	\$ 5,826,912	9.92 %
Services provided to other entities	4,575,786	6,651,831	(31.21) %
Earnings on investments	165,282	235,962	(29.95) %
Intergovernmental	3,297,918	3,574,348	(7.73) %
Other revenues	<u>639,809</u>	<u>377,292</u>	69.58 %
Total	<u>\$ 15,083,682</u>	<u>\$ 16,666,345</u>	(9.50) %
<u>Expenditures</u>			
Instruction	\$ 5,238,959	\$ 5,381,407	(2.65) %
Support services	9,739,490	10,343,616	(5.84) %
Extracurricular activities	<u>24,086</u>	<u>1,990</u>	100.00 %
Total	<u>\$ 15,002,535</u>	<u>\$ 15,727,013</u>	(4.61) %

Title VI-B Fund

The Title VI-B fund had \$869,879 in revenues and \$928,868 in expenditures. During fiscal 2008, the Title VI-B fund's fund balance decreased \$58,989. The Title VI-B fund did not have a balance at the beginning of the fiscal year. This fund primarily accounts for the activity of the Special Education Regional Resource Center (SERRC), which became part of the ESC during fiscal year 2008.

The table that follows assists in illustrating the financial activities and fund balance of the Title VI-B fund.

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Intergovernmental	<u>\$ 869,879</u>	<u>\$ 57,840</u>	1,403.94 %
Total	<u>\$ 869,879</u>	<u>\$ 57,840</u>	1,403.94 %
<u>Expenditures</u>			
Support services	<u>\$ 928,868</u>	<u>\$ 6,977</u>	13,213.29 %
Total	<u>\$ 928,868</u>	<u>\$ 6,977</u>	13,213.29 %

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

Capital Assets

At the end of fiscal 2008, the ESC had \$1,712,702 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2008 balances compared to 2007.

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

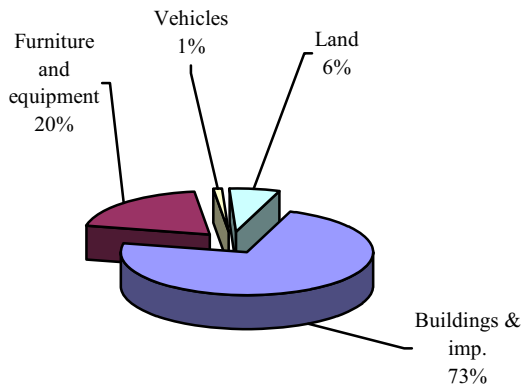
	Governmental Activities	
	2008	2007
Land	\$ 111,059	\$ 111,059
Buildings and improvements	1,248,465	1,284,038
Furniture and equipment	334,828	305,164
Vehicles	18,350	26,853
Total	<u>\$1,712,702</u>	<u>\$ 1,727,114</u>

Total additions to capital assets for 2008 were \$52,180. A total of \$115,148 in depreciation expense was recognized for fiscal 2008. Disposals, net of accumulated depreciation, totaled \$38,399.

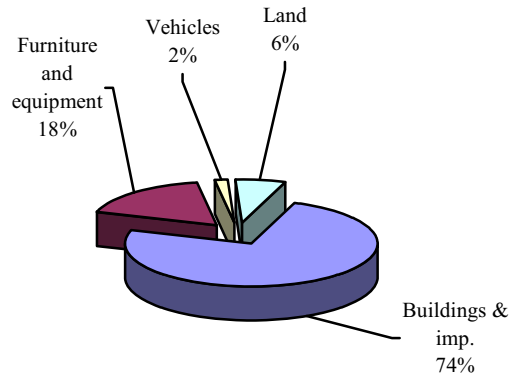
The ESC also received a capital contribution of \$86,955 for the net book value of the SERRC's capital assets.

The graphs below present the ESC's capital assets for fiscal 2008 and fiscal 2007. See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

**Capital Assets - Governmental Activities
2008**



**Capital Assets - Governmental Activities
2007**



**STARK COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

Current Financial Related Activities

The ESC, along with the majority of the school districts in Ohio, continues to be challenged to provide a high level of services with declining revenues. As the preceding information shows, the ESC relies heavily on contracts with local, city, and joint vocational school districts in Stark County, as well as State Foundation revenue and grants. The need for additional services from local and city school districts, along with the ESC's cash balance, will provide the ESC with the necessary funds to meet its operating expenses in fiscal year 2009. However, the future financial stability of the ESC is not without concerns.

In fiscal year 2008, every ESC in Ohio was subject to a reduction of approximately 9.65% of the annual funding provided by the State. This represented an approximate reduction of \$220,000. Additional reductions in the State's budget directly affected the ESC and the schools that it serves.

Declining enrollment in Stark County also remains a concern of the ESC. State funding is based on average daily membership of Stark County school districts. Continued decline in enrollment will have a direct impact on State revenues received by Stark County school districts and the amount of services they will need from the ESC.

Each year, additional services are needed by Stark County school districts. Therefore, the ESC is constantly reviewing their program activity to provide services while maintaining a financially solvent operation.

The ESC's systems of internal control and procedures are reviewed throughout the year to insure a cost efficient operation.

Contacting the ESC's Financial Management

This financial report is designed to provide the citizens supported by the districts, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Jeff Bartholomew, Treasurer, Stark County ESC, 2100 38th Street N.W., Canton, Ohio 44709-2300 or by calling (330) 492-8136.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
Assets:	
Equity in pooled cash and investments.	\$ 1,553,841
Receivables:	
Intergovernmental	3,202,123
Accrued interest	19,731
Loans	2,549
Prepayments	5,677
Capital assets:	
Land	111,059
Depreciable capital assets, net	1,601,643
Total capital assets, net	1,712,702
Total assets.	6,496,623
Liabilities:	
Accounts payable.	75,978
Accrued wages and benefits	1,773,083
Pension obligation payable.	301,897
Intergovernmental payable	146,615
Long-term liabilities:	
Due within one year.	86,741
Due in more than one year	766,489
Total liabilities	3,150,803
Net assets:	
Invested in capital assets.	1,712,702
Restricted for:	
Capital projects	10,260
Locally funded programs.	8,623
State funded programs.	397,271
Federally funded programs	509,505
Unrestricted	707,459
Total net assets	\$ 3,345,820

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 227,472	\$ -	\$ 258,608	\$ -	\$ 31,136
Special	5,723,252	4,622,960	350,323	-	(749,969)
Adult/continuing	21,549	-	16,846	-	(4,703)
Support services:					
Pupil	1,173,434	-	30,864	-	(1,142,570)
Instructional staff	7,789,355	4,038,831	2,945,434	28,958	(776,132)
Board of education	20,657	-	-	-	(20,657)
Administration	3,334,814	2,370,124	848,876	57,997	(57,817)
Fiscal	377,554	-	21,532	-	(356,022)
Business	915,433	10,346	-	-	(905,087)
Operations and maintenance	258,103	64,453	186,150	-	(7,500)
Pupil transportation	4,979	1,789	-	-	(3,190)
Central	241,087	203,094	-	-	(37,993)
Extracurricular activities	24,086	-	-	-	(24,086)
Food service operations	51,672	15,792	34,307	-	(1,573)
Total governmental activities	\$ 20,163,447	\$ 11,327,389	\$ 4,692,940	\$ 86,955	(4,056,163)

General revenues:

Grants and entitlements not restricted to specific programs	3,297,918
Investment earnings	167,582
Miscellaneous	334,109
Total general revenues	3,799,609
Change in net assets	(256,554)
Net assets at beginning of year	3,602,374
Net assets at end of year	\$ 3,345,820

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 1,037,031	\$ 52,258	\$ 464,552	\$ 1,553,841
Receivables:				
Intergovernmental	2,253,822	556,313	391,988	3,202,123
Accrued interest	19,731	-	-	19,731
Loans	2,549	-	-	2,549
Interfund loan receivable	192,916	-	-	192,916
Prepayments	5,677	-	-	5,677
Total assets	<u>\$ 3,511,726</u>	<u>\$ 608,571</u>	<u>\$ 856,540</u>	<u>\$ 4,976,837</u>
Liabilities:				
Accounts payable	\$ 19,820	\$ 14,672	\$ 41,486	\$ 75,978
Accrued wages and benefits	1,578,055	51,302	143,726	1,773,083
Compensated absences payable	42,476	8,265	-	50,741
Pension obligation payable	278,082	6,191	17,624	301,897
Intergovernmental payable	87,628	30,817	28,170	146,615
Interfund loan payable	-	-	192,916	192,916
Deferred revenue	1,123,854	556,313	201,738	1,881,905
Total liabilities	<u>3,129,915</u>	<u>667,560</u>	<u>625,660</u>	<u>4,423,135</u>
Fund balances:				
Reserved for encumbrances	233,889	159,991	716,497	1,110,377
Reserved for prepayments	5,677	-	-	5,677
Unreserved, undesignated (deficit), reported in:				
General fund	142,245	-	-	142,245
Special revenue funds	-	(218,980)	(495,832)	(714,812)
Capital projects funds	-	-	10,215	10,215
Total fund balances (deficit)	<u>381,811</u>	<u>(58,989)</u>	<u>230,880</u>	<u>553,702</u>
Total liabilities and fund balances	<u>\$ 3,511,726</u>	<u>\$ 608,571</u>	<u>\$ 856,540</u>	<u>\$ 4,976,837</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

Total governmental fund balances		\$	553,702
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,712,702
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Accrued interest	\$	19,731	
Intergovernmental		<u>1,862,174</u>	
Total			1,881,905
Long-term liabilities, including compensated absences are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		<u>(802,489)</u>	
Total			<u>(802,489)</u>
Net assets of governmental activities		\$	<u><u>3,345,820</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition	\$ 6,404,887	\$ -	\$ -	\$ 6,404,887
Contributions from private sources	4,350	-	-	4,350
Earnings on investments.	165,282	-	500	165,782
Charges for insurance.	251,320	-	-	251,320
Charges for services	-	-	15,792	15,792
Services provided to other entities.	4,575,786	-	-	4,575,786
Rental income.	64,453	-	-	64,453
Other local revenues.	319,686	-	-	319,686
Intergovernmental - Intermediate	-	-	384,096	384,096
Intergovernmental - State	3,253,007	-	1,715,842	4,968,849
Intergovernmental - Federal.	44,911	869,879	964,572	1,879,362
Total revenue	<u>15,083,682</u>	<u>869,879</u>	<u>3,080,802</u>	<u>19,034,363</u>
Expenditures:				
Current:				
Instruction:				
Regular	-	-	227,472	227,472
Special.	5,238,959	-	359,029	5,597,988
Adult/continuing	-	-	21,549	21,549
Support services:				
Pupil.	1,117,741	-	23,742	1,141,483
Instructional staff	4,303,679	552,026	2,835,200	7,690,905
Board of education	20,657	-	-	20,657
Administration.	2,685,937	272,279	368,909	3,327,125
Fiscal	355,569	-	18,000	373,569
Business	889,404	-	-	889,404
Operations and maintenance.	131,369	104,563	22,171	258,103
Pupil transportation	4,979	-	-	4,979
Central.	230,155	-	-	230,155
Extracurricular activities.	24,086	-	-	24,086
Food service operations	-	-	51,672	51,672
Total expenditures	<u>15,002,535</u>	<u>928,868</u>	<u>3,927,744</u>	<u>19,859,147</u>
Net change in fund balances	81,147	(58,989)	(846,942)	(824,784)
Fund balance at beginning of year	<u>300,664</u>	<u>-</u>	<u>1,077,822</u>	<u>1,378,486</u>
Fund balance (deficit) at end of year	<u>\$ 381,811</u>	<u>\$ (58,989)</u>	<u>\$ 230,880</u>	<u>\$ 553,702</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND 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 \$ (824,784)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$	52,180	
Current year depreciation		(115,148)	
Total			(62,968)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to increase net assets. 48,556

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Tuition		2,329	
Interest revenue		2,300	
Services provided to other entities		10,827	
Other local revenue		12,068	
Intergovernmental		758,051	
Total			785,575

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (202,933)

Change in net assets of governmental activities \$ (256,554)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	Investment Trust	Agency
Assets:		
Equity in pooled cash and investments	\$ 46,063,454	\$ 1,849,581
Receivables:		
Accrued interest	110,862	-
Total assets	46,174,316	\$ 1,849,581
Liabilities:		
Accounts payable	-	\$ 223,793
Accrued wages and benefits	-	154,846
Intergovernmental payable	-	1,421,684
Pension obligation payable	-	34,689
Loans payable	-	2,549
Due to students	-	12,020
Total liabilities	-	\$ 1,849,581
Net assets:		
Net assets available for pool participants	46,174,316	
Total net assets	\$ 46,174,316	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Investment Trust</u>
Additions:	
Capital transactions	\$ 11,815,260
Interest	<u>1,549,968</u>
Total additions	<u>13,365,228</u>
Deductions:	
Distributions to participants	<u>1,568,496</u>
Total deductions	<u>1,568,496</u>
Change in net assets	11,796,732
Net assets at beginning of year.	<u>34,377,584</u>
Net assets at end of year	<u><u>\$ 46,174,316</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ESC

The Stark County Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed it by the constitution and laws of the State of Ohio. The Educational Service Center is a County Board of Education as defined by Section 3313.01 of the Ohio Revised Code. The Educational Service Center supplies supervisory, administrative and other needed services to participating school districts.

The Governing Board consists of 5 members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 125 non-certificated employees and 103 certificated employees to provide services to students throughout the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations and student related activities of the ESC.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise have access to organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the ESC has no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government).

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATIONS

Stark-Portage Area Computer Consortium ("SPARCC") - SPARCC is a jointly governed organization which provides computer services to the school districts within the boundaries of Stark and Portage Counties. Each District's superintendent serves as a representative on the Board, which consists of approximately 31 member districts. However, SPARCC is primarily governed by a five-member executive board, which is made up of two representatives from Stark County, two from Portage County, and a Treasurer. The Board meets monthly to address any current issues.

Stark County Schools Council of Governments ("COG") - The COG is a group purchasing pool. The COG is governed by an Assembly which consists of one representative from each participating school district (usually the superintendent or designee). The Assembly elects officers for one year terms to serve as the Board of Directors. The Assembly exercises control over the operation of the COG. All COG revenues are generated from charges for services.

In the case of SPARCC and the COG, the ESC serves as fiscal agent and custodian but is not accountable; therefore the operations of SPARCC and the COG have been excluded from the ESC's financial statements but the funds held on behalf of SPARCC are included as an agency fund and the funds held on behalf of the COG are included as an investment trust fund.

PUBLIC ENTITY RISK POOLS

Stark County Schools Council of Governments Health Benefit Plan

The Stark County Schools Council of Governments Health Benefit Plan is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Health Benefits Plan is provided through the COG. The COG is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the council. All Health Benefits Plan revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

Stark County Schools Council of Governments Workers' Compensation Group Rating Plan

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the superintendents and the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the ESC and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on its payroll percent of the group.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the ESC's major governmental funds:

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

Title VI-B Fund - The Title VI-B fund is used to account for receipts and expenditures necessary for providing an appropriate public education to all children with disabilities.

The other governmental funds of the ESC account for grants and other resources whose use is restricted to a particular purpose and for food service operations.

PROPRIETARY FUNDS

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC 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 ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's only trust fund is an investment trust fund which accounts for monies held by the ESC as fiscal agent for the COG. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations and individuals.

C. Basis of Presentation and Measurement Focus

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

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the ESC are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The investment trust fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of fiduciary net assets. The statement of changes in fiduciary net assets presents increase (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange 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 ESC, available means expected to be received within sixty days of fiscal year-end.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

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

E. Budgets

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

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC is discretionary, the ESC continues to have its Board approve appropriations and estimated resources. The ESC'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. Budgetary information for the general fund and Title VI-B fund have been presented as supplementary information to the basic financial statements.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Cash and Investments

To improve cash management, cash received by the ESC is pooled in a central bank account. Monies for all funds, including fiduciary funds, are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the basic financial statements.

During fiscal year 2008, investments were limited to federal agency securities, repurchase agreements and U.S. Government money market mutual funds. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

Under existing Ohio statute all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2008 totaled \$165,282, which includes \$113,751 assigned from other ESC funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the ESC's investment account at year-end is provided in Note 4.

G. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC maintains a capitalization threshold of \$2,000. The ESC 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, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 years
Building and improvements	50 years
Furniture and equipment	10 - 20 years
Vehicles	5 - 10 years

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if (a) the employees' rights to payment are attributable to services already rendered; and (b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and for all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2008, and reduced to the maximum payment allowed by labor contracts and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables and accrued liabilities from the fiduciary funds are reported on the fiduciary fund 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, compensated absences 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 year.

J. Fund Balance Reserves

The ESC reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and prepayments.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Net Assets

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

The ESC applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

M. Estimates

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

N. Interfund Activity

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. Interfund activities between governmental funds are eliminated in the statement of activities.

O. Interfund Balances

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

P. 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 Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2008.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2008, the ESC has implemented GASB Statement No. 45, "Accounting and Financial Reporting 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", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the ESC; however, certain disclosures related to postemployment benefits (see Note 11) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the ESC.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

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

	<u>Deficit</u>
<u>Major fund</u>	
Title VI-B	\$ 58,989
 <u>Nonmajor funds</u>	
Teacher development	1,910
EMIS	21
Public school preschool	22,200
Adult basic education	3,592
Vocational education grant	10,957
Handicapped preschool	924
Miscellaneous federal grants	123,373
Limited english proficiency	142
Telecommunity grant	45

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the ESC 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 ESC 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 Governing Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim moneys 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.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above 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 the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the ESC's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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 ESC, 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.

A. Cash on Hand

At year-end, the ESC had \$525 in undeposited cash on hand which is included on the financial statements of the ESC as part of "equity in pooled cash and investments."

B. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all ESC deposits was \$(3,030,462), exclusive of the \$33,700,000 in repurchase agreements included in investments below. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the ESC's bank accounts. The negative carrying amount of deposits is primarily due to the sweeping of money into overnight repurchase agreements, which are reported as "investments". Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$635,860 of the ESC's bank balance of \$735,860 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the ESC's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2008, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
Repurchase agreements	\$ 33,700,000	\$ 33,700,000	\$ -	\$ -	\$ -	\$ -
U.S. Government						
money market funds	1,861,782	1,861,782	-	-	-	-
FNMA - Discount	1,471,950	496,450	975,500	-	-	-
FHLMC - Discount	1,475,200	988,400	486,800	-	-	-
FFCB	2,985,780	-	-	-	1,733,984	1,251,796
FNMA	6,461,346	708,443	4,015,480	-	991,876	745,547
FHLB	2,845,325	1,004,688	498,594	841,262	500,781	-
FHLMC	1,695,430	-	1,195,205	-	500,225	-
	<u>\$ 52,496,813</u>	<u>\$ 38,759,763</u>	<u>\$ 7,171,579</u>	<u>\$ 841,262</u>	<u>\$ 3,726,866</u>	<u>\$ 1,997,343</u>

The weighted average maturity of investments is .36 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the ESC's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: U.S. Government money market funds carry a rating of AAAM by Standard & Poor's. The ESC's investments in federal agency securities and federal agency securities that underlie the repurchase agreements were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the ESC's name. Of the ESC's investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the ESC. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2008:

<u>Investment type</u>	<u>Fair value</u>	<u>% of total</u>
Repurchase agreements	\$ 33,700,000	64.19
U.S. Government money market funds	1,861,782	3.55
FNMA - Discount	1,471,950	2.80
FHLMC - Discount	1,475,200	2.81
FFCB	2,985,780	5.69
FNMA	6,461,346	12.31
FHLB	2,845,325	5.42
FHLMC	1,695,430	3.23
	<u>\$ 52,496,813</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the financial statements as of June 30, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ (3,030,462)
Investments	52,496,813
Cash on hand	<u>525</u>
Total	<u>\$ 49,466,876</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 1,553,841
Investment trust fund	46,063,454
Agency funds	<u>1,849,581</u>
Total	<u>\$ 49,466,876</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2008 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 192,916</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund loan balances between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2008 consisted of intergovernmental (billings to school districts for user charged services and tuition and grants), accrued interest and loans. All receivables are considered collectible in full. A summary of the principal items of receivables reported in the statement of net assets follows:

Governmental activities:	
Intergovernmental	\$ 3,202,123
Accrued interest	19,731
Loans	<u>2,549</u>
Total	<u>\$ 3,224,403</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year. See Note 16 for more detail on loans receivable.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 7 - CAPITAL ASSETS

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

	<u>Balance</u> <u>06/30/07</u>	<u>Transfers in\</u> <u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/08</u>
Governmental activities:				
Land	\$ 111,059	\$ -	\$ -	\$ 111,059
Total capital assets, not being depreciated	<u>111,059</u>	<u>-</u>	<u>-</u>	<u>111,059</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	76,515	-	-	76,515
Buildings and improvements	1,791,665	-	-	1,791,665
Furniture and equipment	1,255,076	287,010	(93,723)	1,448,363
Vehicles	123,358	-	(15,470)	107,888
Total capital assets, being depreciated	<u>3,246,614</u>	<u>287,010</u>	<u>(109,193)</u>	<u>3,424,431</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(76,515)	-	-	(76,515)
Buildings and improvements	(507,627)	(35,573)	-	(543,200)
Furniture and equipment	(949,912)	(222,557)	58,934	(1,113,535)
Vehicles	(96,505)	(4,893)	11,860	(89,538)
Total accumulated depreciation	<u>(1,630,559)</u>	<u>(263,023)</u>	<u>70,794</u>	<u>(1,822,788)</u>
Governmental activities capital assets, net	<u>\$ 1,727,114</u>	<u>\$ 23,987</u>	<u>\$ (38,399)</u>	<u>\$ 1,712,702</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Special	\$ 19,884
<u>Support services:</u>	
Instructional staff	62,912
Administration	12,567
Fiscal	3,612
Business	5,241
Central	<u>10,932</u>
Total depreciation expense	<u>\$ 115,148</u>

During fiscal year 2008, the Special Education Regional Resource Center (SERCC) became part of the ESC. Therefore, the capital assets of the SERCC were transferred to the ESC. The transfer included \$234,830 in furniture and equipment with an accumulated depreciation of \$147,875, for a net book value of \$86,955. The transfer has been recorded as a capital contribution in the statement of activities.

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(CONTINUED)

NOTE 8 - LONG-TERM OBLIGATIONS

During the fiscal year 2008, the following activity occurred in governmental activities long-term obligations:

	<u>Balance</u> <u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/08</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Compensated absences	\$ 599,556	\$ 305,123	\$ (51,449)	\$ 853,230	\$ 86,741

Compensated absences will be paid from the fund from which the employee's salaries are paid which, for the ESC, is primarily the general fund.

NOTE 9 - RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Shared Risk Pool

The ESC is a participant in the Stark County Schools Council of Governments ("COG") for the purpose of obtaining benefits at a reduced premium for both health care and workers' compensation.

The ESC's insurance program for health care, through the COG, is administered by Mutual Health Services Company and Aultcare Corporation. Payments are made to the COG for monthly premiums, monthly stop-loss premiums and administrative charges. The ESC is fiscal agent for the COG. The Treasurer of the ESC pays Mutual Health Services Company and Aultcare Corporation monthly for all participating districts, the actual amount of claims processed, the stop-loss premium and the administrative charges.

C. Worker's Compensation

The ESC also participates in a program with the COG to obtain workers' compensation coverage. This program is administered by Comp Management, Inc. The experience rating of each of the participating districts is calculated as one experience rate and applied to all participants in the program. Premiums paid to the Ohio Bureau of Workers' Compensation are based on this calculation. Total savings are then determined and each participant's performance is compared to the overall savings percentage of the program. The districts will then either receive money back or be required to contribute additional money to the Program.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 10 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The ESC contributes to the School Employees Retirement System (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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC'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. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$352,127, \$358,022 and \$350,794, respectively; 85.87 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 10 - PENSION PLANS - (Continued)

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$931,180, \$899,439, and \$803,410, respectively; 85.87 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$11,780 made by the ESC and \$13,815 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or STRS Ohio have an option to choose Social Security or SERS/STRS Ohio. As of June 30, 2008, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated 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 both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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(CONTINUED)

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The ESC's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$242,224, \$202,390, and \$204,910, respectively; 85.87 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$25,372, \$24,345, and \$27,920, respectively; 85.87 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes 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 monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$71,629, \$69,188, and \$61,801, respectively; 85.87 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 12 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the ESC.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 12 - CONTINGENCIES - (Continued)

B. Litigation

There are no claims or lawsuits pending against the ESC that, upon ultimate disposition, would have a material effect, if any, on the financial condition of the ESC.

NOTE 13 - RELATED PARTY TRANSACTIONS

During fiscal year 2008, the ESC received fees in the amount of \$191,007 for fiscal agent services provided to the Stark County Schools Council of Governments.

The ESC also serves as fiscal agent for Stark Portage Area Computer Consortium (SPARCC). In lieu of fiscal agent fees, the ESC receives computer services from SPARCC at no charge.

NOTE 14 - INVESTMENT POOL

The ESC serves as fiscal agent for the Stark County Schools Council of Governments (COG) which is a legally separate entity. Investments are specifically purchased in the name of COG. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The COG earns interest on investments purchased in the name of the COG. This activity makes up the external portion of the investment pool.

During fiscal year 2008, investments were limited to federal agency securities, repurchase agreements, and U.S. Government money market mutual funds. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

Condensed financial information for the investment pool follows:

Statement of Net Assets	
June 30, 2008	
Assets	
Equity in pooled cash and investments	\$ 49,466,876
Accrued interest receivable	<u>130,593</u>
<i>Total assets</i>	<u>49,597,469</u>
 Net assets held in trust for pool participants	
External portion	46,174,316
Internal portion	<u>3,423,153</u>
<i>Total net assets held in trust for pool participants</i>	<u><u>\$ 49,597,469</u></u>

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 14 - INVESTMENT POOL - (Continued)

Condensed financial information for the investment pool follows:

Statement of Changes in Net Assets
June 30, 2008

Additions	
Interest	\$ 1,715,750
Capital transactions	<u>10,956,444</u>
<i>Total additions</i>	<u>12,672,194</u>
 Deductions	
Distributions to participants	<u>1,478,074</u>
<i>Total deductions</i>	<u>1,478,074</u>
<i>Change in net assets</i>	11,194,120
<i>Net assets, beginning of year</i>	<u>38,403,349</u>
<i>Net assets, end of year</i>	<u>\$ 49,597,469</u>

Deposits and investments of the investment pool mirror those of the ESC. There are no differences between the deposits and investments of the ESC and those of the investment pool. See Note 4 for the disclosures related to investment risk as established in GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

NOTE 15 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM- the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC.

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(CONTINUED)

NOTE 16 - LOANS RECEIVABLE/PAYABLE

During fiscal 2008, the ESC made loans from the general fund to fiduciary funds as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Agency	<u>\$ 2,549</u>

The primary purpose of these loans is to cover costs where revenues were not received by June 30. These loans will be repaid once the anticipated revenues are received. The loans are expected to be repaid in the subsequent year.

STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				(Negative)
Revenues:				
From local sources:				
Tuition.	\$ 5,500,000	\$ 5,500,000	\$ 6,414,495	\$ 914,495
Contributions from private sources	7,000	7,000	4,350	(2,650)
Earnings on investments.	185,000	185,000	157,284	(27,716)
Charges for insurance	226,660	226,660	251,320	24,660
Services provided to other entities.	5,330,660	5,330,660	4,328,229	(1,002,431)
Rental income.	48,000	48,000	64,453	16,453
Other local revenues.	187,680	187,680	311,055	123,375
Intergovernmental - State	3,540,000	3,540,000	3,253,007	(286,993)
Intergovernmental - Federal.	50,000	50,000	44,911	(5,089)
Total revenue	<u>15,075,000</u>	<u>15,075,000</u>	<u>14,829,104</u>	<u>(245,896)</u>
Expenditures:				
Current:				
Instruction:				
Special.	5,454,380	5,800,766	5,382,277	418,489
Support services:				
Pupil.	1,153,953	1,227,236	1,101,633	125,603
Instructional staff	4,134,498	4,397,063	4,354,127	42,936
Board of education	49,943	53,115	28,748	24,367
Administration.	2,193,003	2,332,271	2,680,175	(347,904)
Fiscal	344,303	366,168	364,136	2,032
Business	1,143,306	1,215,912	946,995	268,917
Operations and maintenance.	143,976	153,119	147,888	5,231
Pupil transportation	4,701	5,000	4,979	21
Central.	225,645	239,974	248,536	(8,562)
Extracurricular activities.	-	-	23,438	(23,438)
Facilities acquisition and construction.	5,830	6,200	-	6,200
Total expenditures	<u>14,853,538</u>	<u>15,796,824</u>	<u>15,282,932</u>	<u>513,892</u>
Excess of revenues over (under) expenditures.	<u>221,462</u>	<u>(721,824)</u>	<u>(453,828)</u>	<u>267,996</u>
Other financing sources (uses):				
Refund of prior year expenditures	50,000	50,000	40,674	(9,326)
Advances in.	400,000	400,000	746,053	346,053
Advances (out)	(940,286)	(1,000,000)	(812,919)	187,081
Total other financing sources (uses)	<u>(490,286)</u>	<u>(550,000)</u>	<u>(26,192)</u>	<u>523,808</u>
Net change in fund balance	(268,824)	(1,271,824)	(480,020)	791,804
Fund balance at beginning of year	856,177	856,177	856,177	-
Prior year encumbrances appropriated	412,647	412,647	412,647	-
Fund balance (deficit) at end of year	<u>\$ 1,000,000</u>	<u>\$ (3,000)</u>	<u>\$ 788,804</u>	<u>\$ 791,804</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
TITLE VI-B
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental - Federal	\$ 1,214,941	\$ 1,389,675	\$ 869,879	\$ (519,796)
Total revenue	<u>1,214,941</u>	<u>1,389,675</u>	<u>869,879</u>	<u>(519,796)</u>
Expenditures:				
Current:				
Support services:				
Instructional staff	704,140	897,778	616,055	281,723
Administration	275,142	350,806	242,817	107,989
Fiscal	44,744	57,048	57,048	-
Operations and maintenance	94,556	120,559	98,501	22,058
Total expenditures	<u>1,118,582</u>	<u>1,426,191</u>	<u>1,014,421</u>	<u>411,770</u>
Excess of revenues over (under) expenditures	<u>96,359</u>	<u>(36,516)</u>	<u>(144,542)</u>	<u>(108,026)</u>
Other financing sources (uses):				
Advances in	-	36,517	22,858	(13,659)
Advances (out)	<u>(96,359)</u>	<u>(122,858)</u>	<u>(22,858)</u>	<u>100,000</u>
Total other financing sources (uses)	<u>(96,359)</u>	<u>(86,341)</u>	<u>-</u>	<u>86,341</u>
Net change in fund balance	-	(122,857)	(144,542)	(21,685)
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance (deficit) at end of year . .	<u>\$ -</u>	<u>\$ (122,857)</u>	<u>\$ (144,542)</u>	<u>\$ (21,685)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

NOTE 1 - BUDGETARY PROCESS

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC's Board does follow the budgetary process for control purposes.

The ESC's Governing Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The ESC's Governing 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 Governing Board. The level of control has been established by the Governing Board at the fund level for 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 Governing Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While 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 and disbursements.

The schedule of revenue, expenditures, and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund and Title VI-B fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and the Title VI-B fund are as follows:

Net Change in Fund Balance

	<u>General Fund</u>	<u>Title VI-B</u>
Budget basis	\$ (480,020)	\$ (144,542)
Net adjustment for revenue accruals	254,578	-
Net adjustment for expenditure accruals	30,924	(111,247)
Net adjustment for other sources/uses	26,192	-
Adjustment for encumbrances	<u>249,473</u>	<u>196,800</u>
GAAP basis	<u>\$ 81,147</u>	<u>\$ (58,989)</u>

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Cash Receipts	Cash Disbursements
<u>United States Department of Education</u> <i>(Passed-through the Ohio Department of Education)</i>				
Special Education Cluster:				
Special Education: Preschool Grant	49825-PG-S1-2008	84.173	126,283	137,007
Special Education: Grants to States		84.027	<u>869,879</u>	<u>817,620</u>
Total Special Education Cluster			996,162	954,627
Adult Education: State Grant Program	49825-AB-S1-2007	84.002	6,000	6,000
	49825-AB-S1-2008		<u>18,108</u>	<u>21,572</u>
Total Adult Education: State Grant Program			24,108	27,572
Even Start: State Educational Agencies	49825-EV-S1-2007	84.213	-	165
	49825-EV-S1-2008		<u>139,160</u>	<u>132,578</u>
			139,160	132,743
English Language Acquisition Grants	49825-T3-S1-2008	84.365	19,467	21,630
Title I - Grants to Local Educational Agencies	49825-C1-ST-2007	84.010	6,657	2,888
Career and Technical Education - Basic Grants to States	49825-VECI-TPD-08	84.048	24,058	50,271
Special Education - State Personnel Development	N/A	84.323	25,611	20,840
	N/A		<u>23,658</u>	<u>72,537</u>
			49,269	93,377
<i>(Direct)</i>				
Fund for the Improvement of Education	N/A	84.215K	38,577	65,999
			<u>54,475</u>	<u>67,613</u>
			93,052	133,612
Total U.S. Department of Education			1,351,933	1,416,720
<u>United States Department of Agriculture</u> <i>(Passed-through the Ohio Department of Education)</i>				
Child Nutrition Cluster:				
School Breakfast Program	N/A	10.553	9,225	9,225
National School Lunch Program	N/A	10.555	<u>27,451</u>	<u>27,451</u>
Total Child Nutrition Cluster			36,676	36,676
Child and Adult Care Food Program	N/A	10.558	<u>36,257</u>	<u>36,257</u>
Total U.S. Department of Agriculture			72,933	72,933
<u>United States Department of Health and Human Services</u> <i>(Passed-through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>				
Title XIX - Medical Assistance Program	N/A	93.778	303	303
<i>(Passed-through the Stark County Department of Jobs and Family Services)</i>				
Temporary Assistance for Needy Families	N/A	93.558	<u>64,774</u>	<u>64,774</u>
Total U.S. Department of Health and Human Services			65,077	65,077
<u>National Science Foundation</u> <i>(Direct)</i>				
Education and Human Resources	N/A	47.076	380,566	403,004
<i>(Passed-through Kent State University)</i>				
Education and Human Resources	442188-PO15319	47.076	<u>141,630</u>	<u>133,369</u>
Total National Science Foundation			522,196	536,373
Totals			<u>\$ 2,012,139</u>	<u>\$ 2,091,103</u>

The accompanying notes to this schedule are an integral part of this schedule.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) is a summary of the activity of the Service Center's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require that the Service Center contribute non-Federal funds (matching funds) to support Federally funded programs. The Service Center has complied with such matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE C - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed Federal monies are expended first.

NOTE D - SUBRECIPIENTS

The Service Center passes-through certain Federal assistance received from Stark County Jobs and Family Services to other governments or not-for-profit agencies (subrecipients). As described in Note A, the Service Center records expenditures of Federal awards to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these Federal Programs. Under Federal Circular A-133, the Service Center is responsible for monitoring subrecipients to help assure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Stark County Educational Service Center
Stark County
2100 38th Street N.W.
Canton, Ohio 44709

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Stark County Educational Service Center, Stark County, Ohio, (the Service Center) as of and for the year ended June 30, 2008, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated February 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

We noted a certain matter that we reported to the Service Center's management in a separate letter dated February 10, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, the Governing Board, federal awarding agencies, and pass-through entities. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 10, 2009



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Stark County Educational Service Center
Stark County
2100 38th Street N.W.
Canton, Ohio 44709

To the Governing Board:

Compliance

We have audited the compliance of the Stark County Educational Service Center, Stark County, Ohio, (the Service Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying Schedule of Findings identifies the Service Center's major federal programs. The Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

In our opinion, the Stark County Educational Service Center complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The Service Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Service Center's ability to administer a federal program such that there is more than a remote likelihood that the Service Center's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Service Center's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the audit committee, management, the Governing Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 10, 2009

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Funds for the Improvement of Education – CFDA #84.215K Special Education Cluster – Preschool Grant – CFDA #84.173 Grants to States – CFDA #84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS FOR FEDERAL AWARDS

None

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	The Service Center did not initially identify TANF funds on their Federal Schedule nor did they notify their subrecipients of the CFDA title and number, award name and number, amounts and award year.	Yes	



Mary Taylor, CPA
Auditor of State

STARK COUNTY EDUCATIONAL SERVICE CENTER

STARK 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**