



Dave Yost • Auditor of State

**PORTAGE COUNTY EDUCATIONAL SERVICE CENTER
PORTAGE COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

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

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 Portage County Educational Service Center, Portage County, Ohio, (the Service Center) as of and for the year ended June 30, 2012, 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 Portage County Educational Service Center, Portage County, Ohio, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2013, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and *required budgetary comparison schedules and notes* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

February 13, 2013

Portage County Educational Service Center

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2012

The discussion and analysis of the Portage County Educational Service Center's (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the Educational Service Center's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- Net assets increased \$62,262, which represents a 9 percent increase from 2011.
- Capital assets increased \$6,011 during fiscal year 2012.
- Total program expenses were \$7,259,383.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Educational Service Center as a whole 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 Educational Service Center, presenting both an aggregate view of the Educational Service Center'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 Educational Service Center's most significant funds with all other nonmajor funds presented in total in one column. The Educational Service Center has two major governmental funds, the general fund and the other grants special revenue fund.

Reporting the Educational Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While the basic financial statements contain the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2012?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Portage County Educational Service Center

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2012

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

In the *Statement of Net Assets* and the *Statement of Activities*, Governmental Activities include the Educational Service Center's programs and services, including instruction, support services, and operation and maintenance of plant.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The major funds financial statements begin on page 13. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center has two major governmental funds, the general fund and the other grants special revenue fund.

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

Reporting the Educational Service Center's Fiduciary Responsibilities

The Educational Service Center acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. This activity is reported in an agency fund. The Educational Service Center's fiduciary activity is reported in a separate Statement of Fiduciary Assets and Liabilities on page 17. These activities are excluded from the Educational Service Center's other financial statements because the assets cannot be utilized by the Educational Service Center to finance its operations.

Portage County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

The Educational Service Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2012 compared to 2011:

Table 1
Net Assets

	Governmental Activities	
	2012	2011
Assets		
Current and Other Assets	\$ 1,482,355	\$ 1,663,082
Capital Assets	106,381	100,370
<i>Total Assets</i>	1,588,736	1,763,452
Liabilities		
Other Liabilities	716,307	968,177
Long-Term Liabilities	92,528	77,636
<i>Total Liabilities</i>	808,835	1,045,813
Net Assets		
Invested in Capital Assets, Net of Debt	75,222	100,370
Restricted	608,308	792,714
Unrestricted (Deficit)	96,371	(175,445)
<i>Total Net Assets</i>	\$ 779,901	\$ 717,639

At year end, capital assets represented 7 percent of total assets. Capital assets consist of furniture and equipment. Capital assets, net of related debt were \$75,222 at June 30, 2012. These capital assets are used to provide services to students and are not available for future spending. Although the Educational Service Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Educational Service Center's net assets, \$608,308 or 78 percent, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net assets of \$96,371 may be used to meet the government's ongoing obligations to students and creditors.

Intergovernmental receivables decreased \$233,288 due to the loss of ARRA money and tuition and contract service revenues decreasing.

Accrued wages and benefits decreased by \$218,235 in 2012 based on lower staff levels needed as service request were down.

Portage County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Table 2 shows the changes in net assets for fiscal year 2012 and 2011.

Table 2
Changes in Net Assets

	Governmental Activities	
	2012	2011
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 5,946,575	\$ 7,271,674
Operating Grants	246,840	111,999
<i>Total Program Revenues</i>	<u>6,193,415</u>	<u>7,383,673</u>
<i>General Revenues:</i>		
Grants and Entitlements Not Restricted	1,127,934	1,310,469
Other	296	757
<i>Total General Revenues</i>	<u>1,128,230</u>	<u>1,311,226</u>
<i>Total Revenues</i>	<u>7,321,645</u>	<u>8,694,899</u>
Program Expenses		
<i>Instruction:</i>		
Regular	179,628	81,011
Special	1,476,421	3,136,419
Other	57,994	0
<i>Support Services:</i>		
Pupils	1,836,475	1,708,708
Instructional Staff	2,177,951	2,447,425
Board of Education	198,717	120,644
Administration	687,365	652,114
Fiscal	340,879	267,683
Business	92,755	95,245
Operation and Maintenance of Plant	67,396	59,567
Pupil Transportation	6,934	9,382
Central	0	328
<i>Operation of Non-Instructional Services:</i>		
Food Service Operations	116,518	114,602
Other	825	0
Extracurricular Activities	17,623	10,072
<i>Debt Service:</i>		
Interest and Fiscal Charges	1,902	279
<i>Total Expenses</i>	<u>7,259,383</u>	<u>8,703,479</u>
<i>Increase (Decrease) in Net Assets</i>	62,262	(8,580)
<i>Net Assets at Beginning of Year</i>	<u>717,639</u>	<u>726,219</u>
<i>Net Assets at End of Year</i>	<u>\$ 779,901</u>	<u>\$ 717,639</u>

Portage County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Charges for services provided to member districts decreased \$1,325,099 over fiscal year 2011 while operating grants increased \$134,841. Grants and entitlements not restricted to specific programs decreased \$182,535 from 2011. The Educational Service Center provides services to school districts. These services include but are not limited to Severe Behavioral Handicapped (SBH), Multiple Disabled (MD), Integrated Preschool, and Alternative School classes. The Educational Service Center also provides related services such as Physical Therapy, Occupational Therapy, Speech Therapy, Adapted Physical Education, and Psychological services. The Educational Service Center also employs personnel and places them in specific school districts at their request. Fluctuation in revenues and associated expenses can fluctuate based on the changing needs and service requests of member districts.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by charges for services and unrestricted grants and entitlements.

Program expenses in governmental activities decreased \$1,444,096 from fiscal year 2011. Revenues and expenses fluctuate in the Educational Service Center based on service order requests made by member school districts, which can be contingent on their need and resources available.

**Table 3
Governmental Activities**

	Total Cost of Service		Net Cost of Service	
	2012	2011	2012	2011
Instruction:				
Regular	\$ 179,628	\$ 81,011	\$ 15,806	\$ (1,478)
Special	1,476,421	3,136,419	212,072	124,721
Other	57,994	0	1,106	0
Support Services:				
Pupils	1,836,475	1,708,708	62,064	237,743
Instructional Staff	2,177,951	2,447,425	198,553	329,604
Board of Education	198,717	120,644	3,876	15,948
Administration	687,365	652,114	42,992	56,155
Fiscal	340,879	267,683	340,879	267,683
Business	92,755	95,245	92,755	95,245
Operation and Maintenance of Plant	67,396	59,567	67,396	59,567
Pupil Transportation	6,934	9,382	6,934	9,382
Central	0	328	0	328
Operation of Non-Instructional Services:				
Food Service Operations	116,518	114,602	1,185	114,557
Other	825	0	825	0
Extracurricular Activities	17,623	10,072	17,623	10,072
Debt Service:				
Interest and Fiscal Charges	1,902	279	1,902	279
Total Expenses	\$ 7,259,383	\$ 8,703,479	\$ 1,065,968	\$ 1,319,806

Portage County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012*

Instruction and Support Services comprise 98 percent of governmental program expenses. Pupil transportation and the operation/maintenance of facilities accounts for less than 1 percent of governmental program expenses.

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

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

Governmental Funds

Information about the Educational Service Center's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$7,512,259 and expenditures of \$7,282,471 for fiscal year.

The general fund's net change in fund balance for fiscal year 2012 was an increase of \$63,793. There were no significant changes to revenue or expenses as compared to 2011.

The fund balance of the other grants fund increased by \$192,817. Revenues decreased by \$1,427,004 from 2011 and expenses decreased by \$1,512,323 from 2011.

Portage County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the Educational Service Center had \$106,381 invested in capital assets. Table 4 shows fiscal year 2012 balances compared with 2011.

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

	Governmental Activities	
	2012	2011
Furniture and Fixtures	\$ 106,381	\$ 100,370

The \$6,011 increase in capital assets was attributable by which capital outlay exceeded depreciation in the current period. See Note 7 for more information about the capital assets of the Educational Service Center.

Capital Lease

In fiscal year 2012, the Educational Service Center entered in a capital lease obligation for a new copier. At June 30, 2012, the Educational Service Center had \$31,159 in a capital lease outstanding. See Note 15 for additional details.

Current Issues

The Educational Service Center is State and locally funded. By statute, the State is supposed to fund the Educational Service Center at \$37 per student. However, in March of 2008, the State reduced the funding to all Educational Service Centers by over 9%, then another 1% in 2009. This reduction held true for fiscal year 2012. Instead of \$37 per pupil, the amount per student that Educational Service Center was funded by the state was \$29.84 per student. This gave the Educational Service Center a total of \$676,983 from the State for the per pupil calculation. The result in these reductions is a loss of almost \$70,653 of revenue for Portage Educational Service Center. The statute amount of \$37 per student had not changed in the previous nine years, and there is no anticipation for an increased amount in the future. In fact, there will be a decrease in State funding of 15% in fiscal years 2013. It is uncertain what enrollment will be for future years. Electronic schools are becoming more popular as an alternative to traditional public education. As programs and course offerings are reduced, the Educational Service Center may lose more students through these alternative forms of education. Community Schools are also eating away at enrollment. The Portage County Educational Service Center has agreed to sponsor Community Schools in fiscal year 2012. This may bring back some lost revenue.

The State also awards Special Education Preschool and Gifted unit support. The Educational Service Center received a total of \$442,369 for these two programs in fiscal year 2012.

The Educational Service Center also receives funding directly from the school districts that they serve within Portage County. The Educational Service Center receives \$6.50 per student from each school district, which totaled \$146,116 in fiscal year 2012. There is also an amount deducted from each school

Portage County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012*

district to support supervisory personnel at the Educational Service Center. This resulted in an amount received by the Educational Service Center of \$357,716.

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

In fiscal year 2012, the Educational Service Center joined a group of school districts to form a legal consortium. There are many legal services that traditionally each school district would pay for individually. By joining legal services, the schools can get the same legal advice and not have to pay for it individually. The other school districts pay a flat monthly amount to the ESC, and the ESC in turns pays the legal firm for their services.

In fiscal year 2013, the Educational Service Center will look to promote more Shared Services with other school districts. This will be done to not only save the Educational Service Center money, but other school districts as well. If other schools can save money, then this can provide them the ability to do more business with the Educational Service Center.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Tom Morehouse, Treasurer of Portage County Educational Service Center, 326 East Main Street, Ravenna, Ohio 44266 or by email tmorehouse@portage-esc.org.

Portage County Educational Service Center

Statement of Net Assets

June 30, 2012

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,048,850
Intergovernmental Receivable	433,505
Depreciable Capital Assets (Net)	<u>106,381</u>
<i>Total Assets</i>	<u>1,588,736</u>
Liabilities	
Accounts Payable	21,852
Accrued Wages and Benefits	505,171
Intergovernmental Payable	153,340
Accrued Vacation Leave Payable	23,123
Matured Compensated Absences Payable	12,821
Long Term Liabilities:	
Due Within One Year	18,463
Due In More Than One Year	<u>74,065</u>
<i>Total Liabilities</i>	<u>808,835</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	75,222
Restricted For:	
Capital Outlay	47
Contract Services	205,192
Other Purposes	403,069
Unrestricted	<u>96,371</u>
<i>Total Net Assets</i>	<u>\$ 779,901</u>

See accompanying notes to the basic financial statements.

Portage County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2012

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Revenue and Changes in Net Assets
Governmental Activities				
Instruction:				
Regular	\$ 179,628	\$ 121,933	\$ 41,889	\$ (15,806)
Special	1,476,421	1,264,349	0	(212,072)
Other	57,994	56,888	0	(1,106)
Support Services:				
Pupils	1,836,475	1,732,977	41,434	(62,064)
Instructional Staff	2,177,951	1,932,119	47,279	(198,553)
Board of Governors	198,717	194,841	0	(3,876)
Administration	687,365	643,468	905	(42,992)
Fiscal	340,879	0	0	(340,879)
Business	92,755	0	0	(92,755)
Operation and Maintenance of Plant	67,396	0	0	(67,396)
Pupil Transportation	6,934	0	0	(6,934)
Operation of Non-Instructional Services:				
Food Service Operations	116,518	0	115,333	(1,185)
Other	825	0	0	(825)
Extracurricular Activities	17,623	0	0	(17,623)
Interest and Fiscal Charges	1,902	0	0	(1,902)
Total	\$ 7,259,383	\$ 5,946,575	\$ 246,840	(1,065,968)

General Revenues

Grants and Entitlements Not Restricted to Specific Programs	1,127,934
Investment Earnings	296
Total General Revenues	1,128,230
<i>Change in Net Assets</i>	62,262
<i>Net Assets Beginning of Year</i>	717,639
<i>Net Assets End of Year</i>	\$ 779,901

See accompanying notes to the basic financial statements.

Portage County Educational Service Center

*Balance Sheet
Governmental Funds
June 30, 2012*

	<u>General</u>	<u>Other Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 844,297	\$ 146,445	\$ 58,108	\$ 1,048,850
Receivables:				
Interfund	9,208	0	0	9,208
Intergovernmental	411,026	0	22,479	433,505
<i>Total Assets</i>	<u>\$ 1,264,531</u>	<u>\$ 146,445</u>	<u>\$ 80,587</u>	<u>\$ 1,491,563</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 21,852	\$ 0	\$ 0	\$ 21,852
Accrued Wages and Benefits	500,906	0	4,265	505,171
Intergovernmental Payable	143,061	9,265	1,014	153,340
Matured Compensated Absences Payable	12,821	0	0	12,821
Interfund Payable	0	0	9,208	9,208
Deferred Revenue	295,924	0	4,949	300,873
<i>Total Liabilities</i>	<u>974,564</u>	<u>9,265</u>	<u>19,436</u>	<u>1,003,265</u>
Fund Balances				
Restricted	121,208	137,180	70,068	328,456
Assigned	5,018	0	0	5,018
Unassigned	163,741	0	(8,917)	154,824
<i>Total Fund Balances</i>	<u>289,967</u>	<u>137,180</u>	<u>61,151</u>	<u>488,298</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,264,531</u>	<u>\$ 146,445</u>	<u>\$ 80,587</u>	<u>\$ 1,491,563</u>

See accompanying notes to the basic financial statements.

Portage County Educational Service Center
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2012*

Total Governmental Fund Balances	\$	488,298
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		106,381
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		
Tuition	\$ 295,924	
Grants	<u>4,949</u>	300,873
Long-term liabilities, including leases payable, are not due and payable in the current period and therefore are not reported in the funds.		
Capital Lease Payable	31,159	
Compensated Absences	61,369	
Vacation Benefits Payable	<u>23,123</u>	<u>(115,651)</u>
 <i>Net Assets of Governmental Activities</i>	 \$	 <u><u>779,901</u></u>

See accompanying notes to the basic financial statements.

Portage County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Other Grants	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$ 1,127,112	\$ 0	\$ 244,070	\$ 1,371,182
Investment Income	296	16	21	333
Tuition and Fees	4,693,447	0	0	4,693,447
Contributions and Donations	800	550	0	1,350
Contracts Services Revenue	1,203,881	223,464	0	1,427,345
Miscellaneous	18,602	0	0	18,602
<i>Total Revenues</i>	<u>7,044,138</u>	<u>224,030</u>	<u>244,091</u>	<u>7,512,259</u>
Expenditures				
Current:				
Instruction:				
Regular	131,802	0	46,268	178,070
Special	1,463,816	19,453	0	1,483,269
Other	57,994	0	0	57,994
Support Services:				
Pupils	1,798,550	11,586	22,660	1,832,796
Instructional Staff	2,135,245	174	45,542	2,180,961
Board of Governors	198,717	0	0	198,717
Administration	674,632	0	1,980	676,612
Fiscal	333,218	0	0	333,218
Business	92,736	0	0	92,736
Operation and Maintenance of Plant	97,830	0	0	97,830
Pupil Transportation	6,934	0	0	6,934
Extracurricular Activities	17,623	0	0	17,623
Operation of Non-Instructional Services:				
Food Service Operations	0	0	116,518	116,518
Other	505	0	0	505
Debt Service:				
Principal Retirement	6,786	0	0	6,786
Interest and Fiscal Charges	1,902	0	0	1,902
<i>Total Expenditures</i>	<u>7,018,290</u>	<u>31,213</u>	<u>232,968</u>	<u>7,282,471</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>25,848</u>	<u>192,817</u>	<u>11,123</u>	<u>229,788</u>
Other Financing Sources (Uses)				
Inception of Capital Lease	37,945	0	0	37,945
<i>Net Change in Fund Balance</i>	63,793	192,817	11,123	267,733
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>226,174</u>	<u>(55,637)</u>	<u>50,028</u>	<u>220,565</u>
<i>Fund Balances End of Year</i>	<u>\$ 289,967</u>	<u>\$ 137,180</u>	<u>\$ 61,151</u>	<u>\$ 488,298</u>

See accompanying notes to the basic financial statements.

Portage County Educational Service Center
*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, 2012*

Net Change in Fund Balances - Total Governmental Funds	\$	267,733
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital Asset Additions	\$ 39,643	
Current Year Depreciation	<u>(33,632)</u>	6,011
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Grants	832	
Tuition	<u>(191,446)</u>	(190,614)
Inception of a capital lease issued in the governmental funds that increase long-term debt in the statement of net assets are not reported as revenues.		
Inception of Capital Lease		(37,945)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Capital Lease		6,786
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	16,267	
Vacation Benefits Payable	<u>(5,976)</u>	<u>10,291</u>
<i>Change in Net Assets of Governmental Activities</i>	\$	<u><u>62,262</u></u>

See accompanying notes to the basic financial statements.

Portage County Educational Service Center
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2012

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 8,349,007
Intergovernmental Receivable	<u>50,581</u>
<i>Total Assets</i>	<u><u>\$ 8,399,588</u></u>
Liabilities	
Undistributed Monies	<u>\$ 8,399,588</u>
<i>Total Liabilities</i>	<u><u>\$ 8,399,588</u></u>

See accompanying notes to the basic financial statements.

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Portage County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 1 – Description of the Educational Service Center

The Portage County Educational Service Center (“Educational Service Center”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Educational Service Center makes up the Portage County Local School System. The Education Service Center is an administrative entity which operates under an elected Board of Governors (five members) as defined by Section 3311.05 of the Ohio Revised Code. The Board employs 73 certified and 64 noncertified employees.

Reporting Entity

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

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

The Educational Service Center participates in one jointly governed organization, the Stark Portage Area Computer Consortium (SPARCC), which is presented in Note 14 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The Educational Service Center applies generally accepted accounting principles that were issued prior to November 30, 1989 by the Financial Accounting Standards Board (“FASB”) to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

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

Portage County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

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

Portage County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

The other governmental funds of the Educational Service Center account for grants and other resources to which the Educational Service Center is bound to observe constraints imposed upon the use of resources.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's only fiduciary fund is an agency fund. The Educational Service Center's agency fund accounts for a local insurance consortium.

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

Portage County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of the fiscal year-end.

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

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

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

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

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

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

E. Cash and Cash Equivalents

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

During the fiscal year 2012, investments were limited to STAROhio, (the State Treasurer's Investment Pool) and repurchase agreements.

Portage County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2012. Repurchase agreements are reported at cost.

Following Ohio statutes, the Board has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$296, which includes \$13 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

F. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of two hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

Portage County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

G. Interfund Balances

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

H. Compensated Absences

The Educational Service Center reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

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

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

I. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and 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 fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes primarily include instructional staff, pupils, and administration.

Portage County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

K. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”, the Educational Service Center classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Educational Service Center Governing Board. Those committed amounts cannot be used for any other purpose unless the Educational Service Center Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Educational Service Center Governing Board. The Board of Governors has by resolution authorized the treasurer to assign fund balance. The Board of Governors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The Educational Service Center applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned

Portage County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

L. Interfund Activity

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

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

M. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Governors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

N. Estimates

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

O. Budgetary Data

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

In fiscal year 2004, the Educational Service Center requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Educational Service Center was discretionary, the Educational Service Center continued to have its Board approve appropriations and estimated resources. The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. Although the level of budgetary control was established at the fund level of expenditures, the Educational Service Center has elected to present the budgetary statement comparisons at the fund and function level. Budgetary information for the general fund and the other grant special revenue fund has been presented as supplementary information to the basic financial statements.

Portage County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

Note 3 – Fund Deficits

Fund balances at June 30, 2012 included the following individual fund deficits:

		2012 Deficit <u>Fund Balance</u>
<i>Nonmajor Governmental Funds:</i>		
Title VI-B	\$	3,374
Preschool Grant		5,543

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

Note 4 - Deposits and Investments

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

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

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

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

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

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

Portage County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

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

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

Portage County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Cash on Hand At fiscal year end 2012, the Educational Service Center had \$100 in undeposited cash on hand which is included on the balance sheet of the Educational Service Center as part of equity in pooled cash and cash equivalents.

Deposits At fiscal year-end 2012, the carrying amount of the Educational Service Center's deposits was \$5,584,553 and the bank balance was \$6,293,563. Of the bank balance:

1. \$759,682 was covered by depository insurance for fiscal year 2012; and
2. \$5,533,881 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

Investments

Investments are reported at fair value. As of June 30, 2012, the Educational Service Center had the following investments:

	2012	
	Fair Value	Investment Maturities (in months) 0-6
Chase Repurchase Agreement	\$ 713,795	\$ 713,795
STAROhio	3,099,409	3,099,409
Totals	<u>\$ 3,813,204</u>	<u>\$ 3,813,204</u>

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Educational Service Center's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the Educational Service Center. STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2012, is 53 days.

Credit Risk: The Educational Service Center's investments at June 30, 2012 include a repurchase account and STAROhio. STAROhio is rated AAA by Standard & Poor's. The repurchase agreement is not rated by Standard & Poor's or Moody's Investments Services. The federal agency securities that underlie the repurchase agreement were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Portage County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Concentration of Credit Risk: The Educational Service Center places no limit on the amount the Educational Service Center may invest in any one issuer. More than 5 percent of the Educational Service Center's investments are in STAROhio. This investment is 81 percent for fiscal year 2012 of the Educational Service Center's total investments for the amounts listed above. More than 5 percent of the Educational Service Center's investments are in the repurchase agreements. This investment is 19 percent for fiscal year 2012.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that in the event of failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Educational Service Center's \$713,795 investment in repurchase agreement is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the Educational Service Center's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The Educational Service Center's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Note 5 - Interfund Balances

For fiscal year 2012, on the fund financial statements, the general fund reported an interfund receivable of \$9,208 and the title VI-B fund and preschool grant fund had an interfund payable of \$4,259 and \$4,949, respectively.

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2012 all interfund loans outstanding will be repaid in fiscal year 2013.

Note 6 – Receivables

Receivables at June 30, 2012 consisted of intergovernmental entitlements and grants, and interfund. All receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Portage County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

	2012 Amounts
<i>Major Governmental Funds</i>	
General Fund	\$ 411,026
 <i>Nonmajor Governmental Funds</i>	
Food Service	17,530
Preschool Grant Fund	4,949
<i>Total nonmajor governmental funds</i>	22,479
 <i>Agency Fund</i>	
Employee Benefits	50,581
<i>Total Intergovernmental Receivables</i>	\$ 484,086

Note 7 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Governmental Activities				
<i>Capital Assets, being depreciated:</i>				
Furniture and Equipment	\$ 534,000	\$ 39,643	\$ (17,952)	\$ 555,691
Less Accumulated Depreciation	(433,630)	(33,632)	17,952	(449,310)
Governmental Activities Capital Assets, Net	\$ 100,370	\$ 6,011	\$ 0	\$ 106,381

Portage County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Depreciation expense was charged to governmental functions as follows for fiscal year 2012:

	2012
Instruction:	
Regular	\$ 473
Special	5,290
Support Services:	
Pupil	1,518
Instructional Staff	8,479
Administration	9,424
Fiscal	539
Operation and Maintenance of Plant	7,589
Food Service Operations	320
Total Depreciation	\$ 33,632

Note 8 – Risk Management

The Educational Service Center participates in the Portage County School Consortium which is a co-operative entity to facilitate effective risk management and to share the cost of providing various insurance coverage and employee benefits. There has not been a significant reduction in coverage from the prior year. There have been no settlements paid in excess of insurance in the past three years.

Portage County School Consortium The Portage County School Consortium was established in 1981 so that 12 educational-service providers in Portage County could manage risk exposures and purchase necessary insurance coverage as a group. The Health and Welfare Trust is organized under the provisions of Section 501(c)(9) of the Internal Revenue Code. Its purpose is to facilitate the management of risks associated with providing employee benefits coverage such as health insurance, disability insurance and life insurance. A third party administrator is retained by the consortium to facilitate the operation of the Health and Welfare Trust. The Educational Service Center pays all insurance premiums directly to the consortium. Also, the insurance agreement with Portage County School Consortium provides that the consortium will reinsure through commercial companies for claims over \$200,000 per employee. Although the Educational Service Center does not participate in the day-to-day management of the consortium, one of its administrators serves as a trustee of the consortium’s governing board as provided in the consortium’s enabling authority. Although the Educational Service Center recognizes that it retains a contingent liability to provide insurance coverage should the assets of the consortium become depleted, it is the opinion of management that the assets of the consortium are sufficient to meet its claims.

Effective January 1, 1997, the Educational Service Center of Portage County is the fiscal agent of the Consortium and reports balances within an Agency Fund.

Portage County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 9 – Compensated Absences

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

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

Note 10- Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - The Educational Service Center contributes to the School Employees Retirement System of Ohio (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to 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 Educational Service Center’s required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$218,361, \$191,625 and \$198,693, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

B. State Teachers Retirement System

Plan Description - The Educational Service Center 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

Portage County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website 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.

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

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$454,441, \$608,158 and \$631,150, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$12,632 made by the Educational Service Center and \$9,023 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. The Board's liability is 6.2% of wages paid.

Portage County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 11 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The Educational Service Center participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System 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, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. 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. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 105(e). For 2012, .55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. 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 Educational Service Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011, and 2010 were \$31,139, \$43,408, and \$29,610, respectively; 100 percent has been contributed for fiscal years 2012, 2011, and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was 0.75 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30,

Portage County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

2012, 2011, and 2010 were \$12,946, \$12,331, and \$11,816, respectively; 100 percent has been contributed for fiscal years 2012, 2011, and 2010.

B. State Teachers Retirement System

Plan Description – The Educational Service Center contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premium. 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 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Educational Service Center’s contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$34,957, \$46,781, and \$48,550, respectively; 100 percent has been contributed for fiscal years 2012, 2011, and 2010.

Note 12 – Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure 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, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The Educational Service Center is a defendant in a lawsuit, although management cannot presently determine the outcome of this suit, management believes the resolution of this matter will not materially adversely affect the Educational Service Center’s financial condition.

Portage County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 13 – Long Term Obligations

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

	<i>2012</i>				
	Outstanding June 30, 2011	Additions	Deductions	Outstanding June 30, 2012	Due Within One Year
Governmental Activities:					
Capital Lease	\$ 0	\$ 37,945	\$ 6,786	\$ 31,159	\$ 7,166
Compensated Absences	77,636	27,208	43,475	61,369	11,297
Total Governmental Activities					
Long-Term Liabilities	\$ 77,636	\$ 65,153	\$ 50,261	\$ 92,528	\$ 18,463

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

Note 14 – Jointly Governed Organizations

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

Note 15 – Leases

A. Operating Lease

The Educational Service Center (the “Lessee”) has entered into an operating lease, for a five year period commencing on July 1, 2011. The lease is with David D. Y. Lan and Lily S. C. Lan (the “Lessor”) for facilities to house the offices and functions of the Educational Service Center. Current year lease payments were \$70,800. Rental cost should be recognized on the straight-line basis over the term of the lease because no economic justification can be offered for the rental increases. Should the Lessee need to terminate the lease early due to a reduction or termination of funding, it shall notify the Lessor of its decision to terminate the lease early, in writing, ninety days in advance of the new termination date.

Portage County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

B. Capital Lease

Capital lease obligations relate to copier equipment which is leased under long-term agreements. This lease meets the criteria of a capital lease as they transfer benefits and risks of ownership to the lessee. \$37,945 of furniture and equipment has been recorded as capital assets relating to capital leases with \$7,589 of accumulated depreciation as of June 30, 2012. Capital lease payments in the general fund have been reclassified and are reflected as debt service in the basic financial statements for the general fund. These expenditures are reflected as program/function expenditures on a budgetary basis. The following schedule of future minimum lease payments required under the capital leases and the present value of minimum lease payments as of June 30, 2012 is summarized below.

Fiscal Year Ending June 30,	Amount
2013	\$ 8,688
2014	8,688
2015	8,688
2016	8,688
	34,752
Less: Amount Representing Interest	(3,593)
Present Value of Net Minimum Payments	\$31,159

Note 16 – Fund Balance

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

Portage County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

	General	Other Grants Fund	Other Governmental Funds	Total
Restricted for:				
Contract Service Fees	\$ 120,217	\$ 0	\$ 0	\$ 120,217
Special Education	991	0	0	991
Other Purposes	0	137,180	70,068	207,248
Total Restricted	121,208	137,180	70,068	328,456
Assigned for:				
Other Purposes	5,018	0	0	5,018
Total Assigned	5,018	0	0	5,018
Unassigned	163,741	0	(8,917)	154,824
Total Fund Balance	\$ 289,967	\$ 137,180	\$ 61,151	\$ 488,298

Portage County Educational Service Center
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2012*

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 1,000,000	\$ 1,000,000	\$ 1,127,112	\$ 127,112
Investment Income	100	100	296	196
Tuition and Fees	5,100,000	5,100,000	4,760,195	(339,805)
Contract Service Revenue	1,099,710	1,099,710	1,168,246	68,536
Contributions and Donations	0	0	800	800
Miscellaneous	4,000	4,000	18,602	14,602
<i>Total Revenues</i>	<u>7,203,810</u>	<u>7,203,810</u>	<u>7,075,251</u>	<u>(128,559)</u>
Expenditures				
Current:				
Instruction:				
Regular	139,600	139,600	125,180	14,420
Special	1,959,446	1,959,446	1,468,373	491,073
Other	84,000	84,000	57,994	26,006
Support Services:				
Pupils	1,855,500	1,855,500	1,791,824	63,676
Instructional Staff	2,430,430	2,430,430	2,188,771	241,659
Board of Governors	230,900	230,900	210,001	20,899
Administration	706,960	706,960	712,756	(5,796)
Fiscal	353,890	353,890	337,015	16,875
Business	106,100	106,100	92,738	13,362
Operation and Maintenance of Plant	77,923	77,923	76,070	1,853
Pupil Transportation	11,152	11,152	8,175	2,977
Extracurricular Activities	17,092	17,092	16,741	351
<i>Total Expenditures</i>	<u>7,972,993</u>	<u>7,972,993</u>	<u>7,085,638</u>	<u>887,355</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(769,183)</u>	<u>(769,183)</u>	<u>(10,387)</u>	<u>758,796</u>
Other Financing Sources (Uses)				
Advances In	34,411	34,411	31,411	(3,000)
Advances Out	(25,000)	(25,000)	(9,208)	15,792
<i>Total Other Financing Sources (Uses)</i>	<u>9,411</u>	<u>9,411</u>	<u>22,203</u>	<u>12,792</u>
<i>Net Change in Fund Balance</i>	(759,772)	(759,772)	11,816	771,588
<i>Fund Balance Beginning of Year</i>	594,153	594,153	594,153	0
<i>Prior Year Encumbrances Appropriated</i>	165,619	165,619	165,619	0
<i>Fund Balance End of Year</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 771,588</u>	<u>\$ 771,588</u>

See accompanying notes to the basic financial statements.

Portage County Educational Service Center
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 Other Grants Special Revenue Fund
 For the Fiscal Year Ended June 30, 2012*

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Investment Income	\$ 0	\$ 0	\$ 16	\$ 16
Contract Service Revenue	224,840	229,840	223,464	(6,376)
Contributions and Donations	0	0	550	550
<i>Total Revenues</i>	224,840	229,840	224,030	(5,810)
Expenditures				
Current:				
Instruction:				
Special	362,210	366,738	228,868	137,870
Support Services:				
Pupils	18,352	18,582	11,596	6,986
Instructional Staff	19,435	19,678	12,280	7,398
<i>Total Expenditures</i>	399,997	404,997	252,744	152,253
<i>Net Change in Fund Balance</i>	(175,157)	(175,157)	(28,714)	146,443
<i>Fund Balance (Deficit) Beginning of Year</i>	174,939	174,939	174,939	0
Prior Year Encumbrances Appropriated	218	218	218	0
<i>Fund Balance (Deficit) End of Year</i>	\$ 0	\$ 0	\$ 146,443	\$ 146,443

See accompanying notes to the basic financial statements.

Portage County Educational Service Center

Notes to the Supplemental Information

For Fiscal Year Ended June 30, 2012

Note 1 - Budgetary Process

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

The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

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

Note 2 - Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general fund and other grant fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets (budget).

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

Portage County Educational Service Center

Notes to the Supplemental Information

For Fiscal Year Ended June 30, 2012

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ 63,793
Net Adjustment for Revenue Accruals	(6,832)
Advance In	31,411
Advance Out	(9,208)
Net Adjustment for Expenditure Accruals	4,593
Funds Budgeted Elsewhere**	(505)
Adjustment for Encumbrances	<u>(71,436)</u>
Budget Basis	<u>\$ 11,816</u>

** As part of Governmental Accounting Standards Board No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*", the public school support fund that is legally budgeted in a separate special revenue fund is considered part of the general fund on a GAAP basis.

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

Net Change in Fund Balance

	<u>Other Grants Fund</u>
GAAP Basis	\$ 192,817
Net Adjustment for Expenditure Accruals	<u>(221,531)</u>
Budget Basis	<u>\$ (28,714)</u>

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Dave Yost • Auditor of State

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

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

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 Portage County Educational Service Center, Portage County, Ohio, (the Service Center) as of and for the year ended June 30, 2012, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated February 13, 2013. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Service Center's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 did note certain matters not requiring inclusion in this report that we reported to the Service Center's management in a separate letter dated February 13, 2013.

We intend this report solely for the information and use of management, the Governing Board and others within the Service Center. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

February 13, 2013



Dave Yost • Auditor of State

PORTAGE COUNTY EDUCATIONAL SERVICE CENTER

PORTAGE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 26, 2013